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Politics this week

Jan 6th 2011 | from PRINT EDITION

Hopes for a more liberal **Pakistan** were dealt a blow with the assassination of Salman Taseer by his police bodyguard. The governor of Punjab province, the most populous in Pakistan, Mr Taseer was an outspoken critic of religious intolerance and of the country's harsh and arbitrary blasphemy law. His murder compounds the woes of the ruling Pakistan People's Party, which saw its main coalition partner walk out. See article

In **China** brownouts, caused by a shortage of coal, afflicted the country. In some provinces power stations were down to just a few days of coal stocks. Government regulations keep coal well under the market price, reducing incentives to get it out of the ground. Harsh weather has compounded the problem.

The worst flooding for decades in **Queensland** cut off many cities and towns. Coalmining operations in the Australian state were severely hampered. See article

Not a great start

Hungary took over the rotating presidency of the European Union on January 1st, amid growing concern over media legislation recently passed by the country's government that critics say threatens press freedom. Meanwhile, the EU said it would investigate a number of "crisis" taxes imposed by Hungary on banks and other firms that are mainly foreign-owned. See article

Boris Nemtsov, a prominent figure in the **Russian** opposition, was arrested in Moscow after a demonstration and given a 15-day jail sentence. A day earlier he had criticised the 14-year prison term handed to Mikhail Khodorkovsky, a former oil tycoon who had been convicted of stealing oil. See article

A food-contamination scandal erupted in **Germany** when traces of dioxin were found in poultry and eggs. Officials said that the food presented "no acute health danger".

The rate of value-added tax in **Britain** went up from 17.5% to 20%. The opposition Labour Party said it would hit the poorest hardest. Some economists feared the tax rise would threaten Britain's recovery. The government said it was necessary to boost Treasury coffers. See article

Carnage among the prayers

At least 21 **Egyptians**, mostly Coptic Christians, were killed by a bomb in a church in the city of Alexandria, heightening anxiety among co-religionists across the Middle East who have recently felt beleaguered, especially in Iraq. It was unclear who perpetrated the atrocity. Muslim authorities in Egypt and elsewhere in the region expressed solidarity with their Christian- Arab brethren.

A leading anti-Western Shia cleric, Muqtada al-Sadr, who is a crucial backer of **Iraq's** new coalition government, returned home after three years in exile in **Iran**.

Laurent Gbagbo, who is almost universally deemed to have lost his bid for re-election as president of **Cote d'Ivoire** in late November, refused to heed the African Union and a string of visiting African leaders trying to persuade him to go. The Economic Community of West African States (ECOWAS), the most influential regional body, aired the prospect of using military force to evict him. See article

In the run-up to a referendum on secession in **South Sudan** to be held on January 9th, the president of Sudan as a whole, Omar al-Bashir, said he would accept the result if, as expected, the southerners vote to secede. See article

Trouble persisted on the streets of towns in **Tunisia**, where the immolation in public of an unemployed youth in December, followed by his death on January 4th, sparked a wave of protests against joblessness, inequality and corruption at the top. See article

Dilma's wish list

Dilma Rousseff took office as **Brazil's** president. She promised to eradicate extreme poverty, control inflation, increase public investment, improve health, education and public security, open doors for women in public life and support political and tax reform.

On his last day in office Ms Rousseff's predecessor, **Luiz Inacio Lula da Silva**, rejected a request to extradite to Italy Cesare Battisti, a former member of an extreme leftist faction convicted of murder. Italy withdrew its ambassador to Brasilia in protest; Mr Battisti's lawyers said they would apply to Brazil's supreme court for his release from prison.

The **United States** revoked the visa of **Venezuela's** ambassador to Washington in retaliation for the rejection by Hugo Chavez of Larry Palmer, the nominated American ambassador to Caracas, who had criticised his government.

Venezuela devalued the bolivar for the second time in a year, abolishing a preferential rate of 2.6 bolivares to the dollar and unifying the official exchange rate at 4.3.

Faced with massive protests by many of his own supporters, Evo Morales, **Bolivia's** socialist president, cancelled an increase in fuel prices of more than 70%. The government had earlier said that the price rise was needed to end an unsustainable subsidy and to encourage oil production, which has been falling. See article

Let the games begin

The **112th Congress** convened in Washington with a cohort of fresh, mostly Republican, faces. One priority of the leadership in the Republican-controlled House of Representatives was to start a debate on repealing Barack Obama's health-care-reform act; a vote on the matter was set for January 12th. In the Senate the Democrats, who now command a smaller majority in the chamber, tried to force changes to parliamentary rules that would narrow the ability of a senator to mount a vote-delaying filibuster. See article

America's gross **national debt** passed $14 trillion for the first time, up by $2 trillion in little over a year. The figure is very close to the current debt ceiling, which Congress must raise if the government is to continue borrowing and avoid a possible default. Some Republicans have insisted they will resist any attempt to increase the debt limit.

As Mr Obama prepared to appoint new advisers to the White House, **Robert Gibbs** announced that he would step down as the president's press secretary next month. Mr Gibbs has worked with Mr Obama since 2004, when he worked on his campaign to become a senator for Illinois.

New state **governors** were sworn into office, including Andrew Cuomo in New York and (the not-so-new) Jerry Brown in California. See article

Business this week

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An index of **world food prices** compiled by the UN reached a record level in December, surpassing its previous high of June 2008, a year in which the cost of food sparked rioting in Haiti and elsewhere. Unlike then, the prices of some staple cereals such as rice remain relatively stable, though the price of wheat is rising. The increasing costs of other cereals and sugar were the main factors behind the rise in the index.

The presidential commission investigating the causes of last year's **oil spill** in the Gulf of Mexico released a chapter containing the key findings of its final report, due on January 11th. The chapter stated that "most of the mistakes and oversights" leading to the explosion at BP's well "can be traced back to a single overarching failure-a failure of management". See article

The private network

It emerged that **Facebook** has secured $500m in financing from Goldman Sachs and Digital Sky Technologies, a Russian investment firm, to fuel its expansion plans. Goldman also set up an investment vehicle for its clients to buy into privately held Facebook's equity. The arrangement values Facebook at $50 billion, up from an estimated $10 billion just 18 months ago, prompting questions about whether the rules for disclosure on trading in the stock of private firms need to change. See article

The European Financial Stabilisation Mechanism issued a bond to raise money for bailing out **Ireland**. There was strong demand for the sale of euro5 billion ($6.7 billion) in five-year debt.

Markets kept a wary eye on other bond issues in the euro zone. **Portugal** successfully sold euro500m ($665m) in six-month treasury bills, though the average yield was 1.64 percentage points higher than at its last sale of a similar maturity in September. **Spain** received a boost, however, when Li Keqiang, China's deputy prime minister, said that his country would still buy Spanish debt and had particular confidence in the Spanish financial market.

Trichet's potential headache

Inflation in the euro zone rose to 2.2% in December, the highest since October 2008 and above the European Central Bank's target of close to but below 2%.

Chile's central bank announced that it was committing $12 billion over the next year to intervening in foreign-currency markets in an effort to keep the value of the Chilean peso down. It is the latest shot in the **"currency wars"**, in which some emerging economies are using a variety of measures to stop their currencies appreciating. But India's Financial Stability Development Council, at its first meeting, criticised policies that attempt to keep currencies artificially low, which was seen as a dig at China.

Qualcomm, the world's biggest maker of chips for mobile phones, said it was buying **Atheros Communications**, which is based in San Jose. The $3.1 billion acquisition is Qualcomm's biggest to date and expands its business in wireless chipsets of the kind used in smart-phones and tablet computers. Separately, Microsoft said its next version of **Windows** would run on chips designed by ARM, which are better suited to mobile devices than those supplied by Intel, Microsoft's established partner.

Bank of America paid $2.8 billion to settle claims brought by **Fannie Mae** and **Freddie Mac**, two housing-finance giants, against the mortgage-lending practices of Countrywide Financial, a distressed bank that BofA acquired in 2008. BofA still faces potentially large claims from insurers and private investors seeking to get their money back for home loans that purportedly failed to meet the proper underwriting criteria. See article

Sergio Marchionne suggested that **Fiat** could obtain a controlling stake in **Chrysler** before the Detroit carmaker's stockmarket flotation later this year. Mr Marchionne has been chief executive of Fiat and Chrysler since 2009, when Fiat took a 20% stake in Chrysler as part of a rescue plan engineered by the American government. Meanwhile, Fiat officially demerged its carmaking operations from its truck and farm-equipment business.

Renault suspended three senior managers. The company did not say why, but the suspensions are thought to be related to the suspected leaking of its secrets about electric-car design.

Prompted to choose

More Europeans now use Mozilla's **Firefox** web browser than Microsoft's **Internet Explorer**, according to data compiled by StatCounter, a market-analysis company. Firefox took 38.1% of the European market in December, compared with 37.5% for Internet Explorer and 14.6% for Google's Chrome. Microsoft's browser still predominates in America and Asia.

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Daily Chart

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The public sector unions

The battle ahead

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The struggle with public-sector unions should be about productivity and parity, not just spending cuts

LOOK around the world and the forces are massing. On one side are Californian prison guards, British policemen, French railworkers, Greek civil servants, and teachers just about everywhere. On the other stand the cash-strapped governments of the rich world. Even the mere mention of cuts has brought public-sector workers onto the streets across Europe. When those plans are put into action, expect much worse.

"Industrial relations" are back at the heart of politics-not as an old-fashioned clash between capital and labour, fought out so brutally in the Thatcherite 1980s, but as one between taxpayers and what William Cobbett, one of the great British liberals, used to refer to as "tax eaters". People in the private sector are only just beginning to understand how much of a banquet public-sector unions have been having at everybody else's expense (see article). In many rich countries wages are on average higher in the state sector, pensions hugely better and jobs far more secure. Even if many individual state workers do magnificent jobs, their unions have blocked reform at every turn. In both America and Europe it is almost as hard to reward an outstanding teacher as it is to sack a useless one.

While union membership has collapsed in the private sector over the past 30 years (from 44% of the workforce to 15% in Britain and from 33% to 15% in America), it has remained buoyant in the public sector. In Britain over half the workers are unionised. In America the figure is now 36% (compared with just 11% in 1960). In much of continental Europe most civil servants belong to unions, albeit ones that straddle the private sector as well. And in public services union power is magnified not just by strikers' ability to shut down monopolies that everyone needs without seeing their employer go bust, but also by their political clout over those employers.

Many Western centre-left parties are union-backed. Britain's Labour Party gets 80% of its funding from public-sector unions (which also, in effect, chose its new leader). Spain's sluggish state reform may be partly explained by its prime minister's union membership. In America teachers alone accounted for a tenth of the delegates to the Democratic convention in 2008. And the unions are more savvy: this time, the defenders of vested interests are not brawny miners spouting Trotsky, but nice middle-class women, often hiding behind useful-sounding groups like the National Education Association (American teachers) or the British Medical Association.

Now stand and fight

Politicians have repeatedly given in, usually sneakily-by swelling pensions, adding yet more holidays or dropping reforms, rather than by increasing pay. This time they have to fight because they are so short of money. But it is crucial that the war with the public-sector unions is won in the right way. For amid all the pain ahead sits a huge opportunity-to redesign

government. That means focusing on productivity and improving services, not just cutting costs. (Indeed, in some cases it may entail paying good people more; one reason why Singapore has arguably the best civil service in the world is that it pays some of them more than $2m a year.)

The immediate battle will be over benefits, not pay. Here the issue is parity. Holidays are often absurdly generous, but the real issue is pensions. Too many state workers can retire in their mid-50s on close to full pay. America's states have as much as $5 trillion in unfunded pension liabilities. Historic liabilities have to be honoured (and properly accounted for, rather than hidden off the government's balance-sheet). But there is no excuse for continuing them. Sixty-five should be a minimum age for retirement for people who spend their lives in classrooms and offices; and new civil servants should be switched to defined-contribution pensions.

Another battleground will be the unions' legal privileges. It is not that long since politicians of all persuasions were uncomfortable with the idea of government workers joining unions. (Franklin Roosevelt opposed this on the grounds that public servants had "special relations" and "special obligations" to the government and the rest of the public.) It would be perverse to ban public-sector unions outright at a time when governments are trying to make public services more like private ones. But their right to strike should be more tightly limited; and the rules governing political donations and even unionisation itself should be changed to "opt-in" ones, in which a member decides whether to give or join.

The productivity imperative

Fixing the public sector must not be allowed to degenerate into demonising it. Its health is vital to the health of society as a whole, not least because of its impact on economic growth. Bad teachers mean a lousy talent-pool for employers. Allowing a subway driver to retire at 50 on an artificially inflated pension means less to spend on infrastructure: just look at America's highways and railways. Even if many public services are monopolies, private capital is mobile: it goes to places where government works. With ageing populations needing ever more state help, the left should have as much interest as the right in an efficient state sector (perhaps more so, as it thinks government is the way to right society's ills).

Private-sector productivity has soared in the West over the past quarter-century, even in old industries such as steel and carmaking. Companies have achieved this because they have the freedom to manage-to experiment, to expand successful innovations, to close down bad ones, to promote talented people (see article). Across the public sector, unions have fought all this, most cruelly in education (see article). It can be harder to restructure government than business, but even small productivity gains can bring big savings.

The coming battle should be about delivering better services, not about cutting resources. Focusing on productivity should help politicians redefine the debate. The imminent retirement of the baby-boomers is a chance to hire a new generation of workers with different contracts. Politicians face a choice: push ahead, reform and create jobs in the long term; or give in again, and cut more services and raise more taxes.

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Nemtsov in prison

Frozen out

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Russia marks a new low with the arrest of an opposition leader on flimsy charges

THE verdict against Mikhail Khodorkovsky was "shameful" and boded ill for Russia said Boris Nemtsov, a leader of the liberal opposition. He pointed out that the decision to sentence the former oil tycoon to the maximum 14-year term on December 30th "had nothing to do with the rule of law" and predicted it would "have very negative consequences".

Mr Nemtsov did not have to wait long to be proved right. The next day, after speaking in a rally supporting freedom of assembly, he was arrested (see picture) and sent to jail for the maximum 15-day sentence. Several other opposition activists were nabbed too, but he was the main target.

Mr Nemtsov served as a deputy prime minister under Boris Yeltsin and (unlike both Mr Khodorkovsky and some of those now in the Kremlin) he emerged from the troubled 1990s with his reputation intact. The mistreatment of him seems pointlessly malevolent. He poses no threat to the government. The rally was authorised and he was on his way home when the police stopped him. He was charged with disobeying the police and swearing, despite video-footage that showed him asking the police to "calm down". A judge would not admit this as evidence. The court disregarded witness statements supporting him and would not let him appeal against his conviction.

What is this about? Presumably it is a display of brute power by Vladimir Putin, Russia's prime minister. Mr Nemtsov's treatment flows from Mr Khodorkovsky's. During a recent phone-in programme, Mr Putin pre-empted the court's verdict by saying Mr Khodorkovsky was guilty of theft and murder, leaving the impression that the judge was merely implementing Mr Putin's decision. The fact that the verdict made no sense-the new charges contradicted others that Mr Khodorkovsky had previously been found guilty of-only made the injustice more dramatic. Mr Khodorkovsky's real offence was the fact that his first prison sentence was due to end. Chucking Mr Nemtsov in the slammer on trumped-up charges, so soon after Western objections to Mr Khodorkovsky's treatment, only rammed home Mr Putin's message to Russia's elite and to the West: forget liberal chatter about human rights, forget notions of legitimacy, forget any idea that Russia will bow to the West. I'm in charge.

Stand up and be counted

Mr Putin is gambling that Western politicians are too weak and Western investors too greedy to stand up to him. They should prove him wrong.

That requires a show of principle and a change in tactics. The West should recognise that this marks a new, more repressive phase of Mr Putin's rule, and treat Mr Nemtsov as a prisoner of conscience. America has complained, as have some members of the European Parliament, but European leaders have been shamefully silent. Of course, Russia will continue to reject any protests-as it did over Mr Khodorkovsky's sentence-but if the Europeans are silent, Mr Putin will assume that they acquiesce. The EU's interests may differ from America's in dealing with Russia, but its values do not. Fabricating cases against political opponents is unacceptable whether you are in Paris, Berlin or Washington. If Russia continues to act in this way, it should be chucked out of the G8.

The change of tactics involves Dmitry Medvedev, the president. The West has been trying to help him in an imagined rivalry with Mr Putin. But his attempts to dissociate himself from the treatment of Mr Khodorkovsky and Mr Nemtsov do

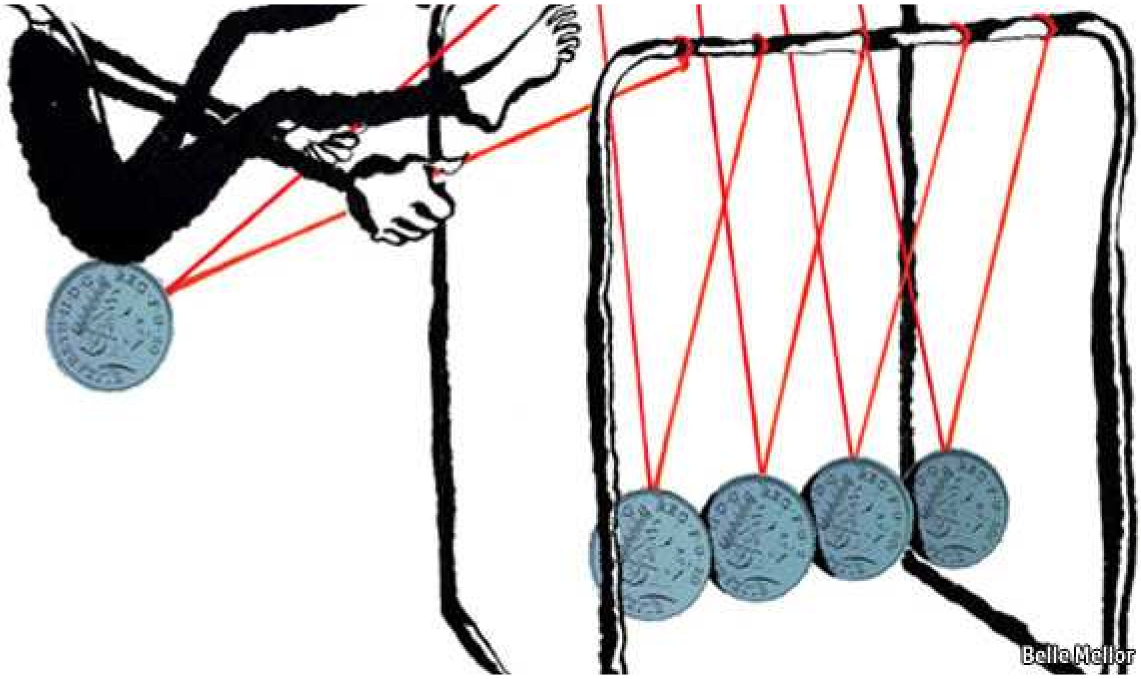
not absolve him from the responsibility that he bears, as guardian of Russia's constitution, for the shortcomings of the courts and the government. He should be told that firmly.

Financial markets

The big mo

Jan 6th 2011 | from PRINT EDITION

Investors love to chase winning stocks. Policymakers should be wary of the momentum this creates



SOME shoppers queue all night to buy goods in the January sales. When it comes to stockmarkets, however, investors take the opposite approach: they flock to buy shares that have risen in price.

This "momentum effect" has been in existence for over a century and has been observed across many countries (see article). Investors who buy the best-performing shares over the previous year earn much higher returns (ten percentage points a year) than those who buy the laggards of the preceding 12 months. This anomaly flies in the face of academic theory, in the form of the efficient-market hypothesis, which suggests that past price movements should provide no guide to future changes. It cannot be explained away by saying that high-performing stocks are more risky, or by arguing that the trading costs involved in such a strategy would eat up all the profits.

Although the momentum effect has been amply documented it has never been properly explained. Perhaps investors are slow to react when the fortunes of companies change; one good set of results can be dismissed as a fluke, but after two or three bumper periods the share turns into a wonder stock. Another possibility is that fund managers create the momentum effect by "window-dressing" their portfolios with the market's recent favourites (it looks much better to close a quarter owning the market leaders).

A second puzzle is why the effect has not been arbitraged away. The answer probably lies in timing. Clearly the momentum effect cannot last for ever or share prices would head for infinity. Over long periods (more than three years or so) an opposite anomaly known as the value effect occurs: shares that are depressed in price tend to rebound. Momentum-chasing investors may get caught out by the switch from one effect to the other, especially when they have used borrowed money to try to enhance returns.

Forever blowing bubbles

Whatever the rationale, the momentum effect tells us something significant about markets. The efficient-market hypothesis is a useful reminder that the average investor cannot expect to beat the market after expenses. As a result, low-cost vehicles like index-trackers and exchange-traded funds have become popular. But the mere fact that the market is hard to beat does not make it rational. Analysing an irrational market is extremely difficult, as those who tried to call the top of the dotcom boom discovered in the late 1990s. An irrational market sends misleading signals, causing capital to be allocated in the wrong places-for example, encouraging the building of homes in America, Spain and Ireland for which there was scant underlying (as opposed to speculative) demand. The companies that find it easiest to raise cash thanks to these market signals may not be those with the best business prospects.

For investors, such second-guessing is complicated enough. But what about regulators? Momentum effects are yet another reason to refrain from imposing restrictions on short-sellers. Doing that merely prevents (or more often delays) prices from finding the right level. All too often, as with the failed energy giant, Enron, the short-sellers were the only ones brave enough to be sceptical of market favourites.

At the overall market level, momentum effects help to explain why bubbles develop. Put that together with borrowed money and you have a disaster in the making, like the credit crunch. Too often, central banks have tended to give speculative buyers a one-way bet-cutting interest rates when markets falter, but leaving them unchanged when asset prices boom. Even now, many still stick to the creed of Alan Greenspan, a former Federal Reserve chairman, who thought central bankers should not try to pop bubbles but act to cushion the economy when they burst. It is certainly hard to spot bubbles; but central banks already grapple with other imponderables, such as the size of the output gap or the level of structural unemployment. And asset bubbles can be deflated through limits on some sorts of borrowing rather than just interest-rate hikes. Economies can get carried away by momentum.

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South Sudan

A necessary secession

Jan 6th 2011 | from PRINT EDITION

This case for creating a new country is irresistible. Other candidates for statehood are more questionable

IT IS now almost certain that on January 9th the vast majority of people in South Sudan will vote to secede from the rest of the country, thus paving the way to the formal inauguration of Africa's 54th sovereign state, probably in July. It will be a moment for celebration tinged with queasy foreboding. But it is the only way forward. The long marriage between Sudan's Arab-and-Muslim north and its black, animist and Christian south was always unequal and unhappy. A federal arrangement might have worked if both sides had shown flexibility and magnanimity, but neither proved able to do so. At least 2m people, mostly southerners, have died in the course of marital discord spread over 50 years. Divorce is now the only option.

This does not mean that everything from now on will be peaceful (see article). A tidy divorce settlement has yet to be agreed on. The border running through an oil-rich district that straddles the two entities has yet to be drawn, pending a further referendum there. There could be trouble in the north: its ghastly president, Omar al-Bashir, re-elected in a shoddy poll last year, may be deemed by many of his fellow Muslims to have "lost the south". He remains under indictment by

the International Criminal Court at The Hague for crimes against humanity in Sudan's disaffected western region of Darfur. His own survival cannot be assured.

But bigger problems may afflict the south. Mr Bashir's resentful northern government in Khartoum may be tempted to make life as harsh as it can for the newly minted southern state, perhaps by stirring up trouble among smaller southern tribes fearful of being marginalised in the new state. And even if Mr Bashir behaves decently, the southerners are capable of messing things up on their own. Those old demons of corruption and tribalism already stalk the southern land. An African liberation army is once again finding it hard to turn itself into a civilian authority that truly accepts the existence of a democratic opposition. The new rulers depend largely on foreign cash and skills. Though the territory is bigger than Spain and Portugal together, it has barely 100km (62 miles) of asphalted road, no solid institutions, scant medical and educational facilities, a fledgling judiciary and only the skimpiest police.

They won't all try to go it alone

Not surprisingly, many people, especially in Africa, wonder whether South Sudan deserves to become a country at all. The African Union (AU) and its predecessor, the Organisation of African Unity, have long inveighed in principle against secessionist tendencies across the continent on the ground that, if one big tribe or another were given the freedom to break away, the entire patchwork quilt of African countries, haphazardly sewed together by colonial powers only a few generations ago, could be ripped to shreds. Terrible wars were fought to keep Nigeria's Biafra and Congo's Katanga from seceding. More recently, as African governance has generally improved, constitutions have been written and amended in an effort to provide for devolved powers around the edges while allowing for a firm hand at the centre.

The right of all peoples to self-determination generally holds good across the globe. But, as this newspaper has argued before, it needs careful qualifications, the main one being that both sides in a divorce must agree to part. In Sudan's case, the price of the peace treaty, signed in 2005 under the aegis of American, British and Norwegian mediators, was that, if the two sides failed to forge a new federal arrangement, the south could secede once a referendum showed that most of its people wanted it to do so. Because of race and religion, Sudan's north-south gulf is as wide as any in Africa. Its agreed secession would not be unprecedented. Africa's most recent breakaway, Eritrea, was finally in 1993, after a long war, allowed to leave Ethiopia, to which it had been attached not so long ago.

Sudan ought not to open a Pandora's box of African statelets wildly jumping to be set free. In some current cases, such as Somaliland, the only bit of Somalia that is now effectively governed, a long period of successful autonomy may conceivably lead to its gradual acceptance as a sovereign state. In others, such as Western Sahara, a former Spanish possession whose bid to escape from Moroccan control has long divided the AU, a stalemate is set to persist, perhaps indefinitely. In yet other cases, such as the island of Zanzibar, which is part of Tanzania, or the oil-rich exclave of Cabinda, part of Angola, a generous dose of autonomy is the only sensible way ahead.

The AU is rightly becoming more flexible. It recognises Sudan as exceptional. Its break-up does not threaten the rest of Africa. South Sudan is a risk, but it should be wholeheartedly welcomed into the comity of independent states.

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Pakistan

A good man who did something

Jan 6th 2011 | from PRINT EDITION

Salman Taseer's death provides a parable of why his country, which promised so much, has slipped so far

IN HIS first speech to Pakistan's constituent assembly, on August 11th 1947, the country's president, Muhammad Ali Jinnah, made clear his belief that religious toleration should prevail in the country he had brought into being. "You are free; you are free to go to your temples, you are free to go to your mosques or to any other place of worship in this state of Pakistan." It is a dreadful measure of how far Pakistan has sunk since then that Salman Taseer, governor of Punjab, was murdered on January 4th because of his outspoken support for that principle.

Mr Taseer, a member of the Pakistan People's Party and a close ally of the president, Asif Ali Zardari, had been campaigning on behalf of Asia Bibi, an illiterate Christian farm worker who in the course of a row with neighbours over drinking water was accused of blasphemy, convicted and sentenced to death. He had called for her to be pardoned, and also for the law, under which death for blasphemy against the prophet is mandatory, to be changed. His murderer, one of his bodyguards, said this was why the governor was killed.

The wider horror

The blasphemy law is bad enough in itself, but it also gives official sanction to a growing atmosphere of religious intolerance in Pakistan. Nobody has been executed under the law, but some fundamentalists regard it as their duty to do what the legal system has failed to do, and 32 people charged or convicted under the law have been murdered. Clerics called a national strike on December 31st to oppose a change in the law; whether out of support for the fundamentalists, or out of fear, it was widely observed.

Religious intolerance has also manifested itself in a horrifying wave of sectarian violence. In August 2009 the burning of a Christian church, after claims that a Koran had been desecrated, killed nine people. In May last year attacks on two mosques of the Ahmadi sect-which some mainstream Muslims regard as apostate-killed 95. In September an attack on a Shia procession killed 35 people.

Responsibility for turning Pakistan from the country that Jinnah hoped it would become into the bloodstained place it is today must be widely shared, but there are a few obvious culprits. First among them is the army. Zia ul Haq, the military dictator who took power in a coup in 1977 (and who imprisoned Mr Taseer and had him tortured), introduced sharia law, set up many of the religious schools that have produced the extremists who now plague the country, and promoted fundamentalist officers. His successors in the army have nurtured extremist groups to use them as tools within Afghanistan and against India, with little regard for their own country's safety.

The politicians are not guilt-free, either. As a class, their venality has given democracy such a bad name that mullahs who decry it get an enthusiastic hearing; but some individuals have extra burdens of guilt to bear. Nawaz Sharif, twice prime minister, formerly chief minister of Punjab and whose brother now holds that post, has long numbered fundamentalists among his allies, and it was during his time in power that the mandatory death sentence was introduced. After the Ahmadi massacre in Punjab's capital, Lahore, neither of the Sharifs visited the mosques to pay their respects to the community.

But the Pakistan People's Party must take its share of the blame, too. Its manifesto committed it to repealing discriminatory laws, and President Zardari made much of Ms Bibi's case. But instead of granting a swift pardon (which he did for his interior minister, Rehman Malik, who was convicted of corruption last year) he dithered until the case became

a cause celebre for fundamentalists and then lost his nerve. The government abandoned the only two politicians brave enough to pursue the matter-Mr Taseer and Sherry Rehman, an MP who had introduced a private member's bill to amend the law-and said it would not change the legislation.

For evil to prevail, as the old saw goes, all that is required is for good men to do nothing. But Mr Taseer's fate shows how high a price those who do something may have to pay.

Brave people who are isolated are easy to pick off. Pakistan's slide into darkness will be stopped only if its political class hangs together and clings on to the values Jinnah predicted would make the place "one of the greatest countries in the world". It is a phrase that rings with tragic irony today.

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Letters

On doctoral degrees, polluting ships, Richard Holbrooke, British pubs

Jan 6th 2011 | from PRINT EDITION

SIR - We would like to challenge many of the assertions and "research" presented as evidence in your argument that "doing a PhD is often a waste of time" ("The disposable academic", December 18th). Although some poor practices still exist, monitoring and mentoring systems have swept away much of the abuse that did undoubtedly occur in the past. Most institutions now monitor submission times, career destinations and earnings. The lack of permanent contracts is a trend throughout the professional world, not just in academia.

The PhD at research-intensive universities is a strong foundation for developing and managing the information society. Society needs highly trained critical thinkers to tackle complex problems with rigour and research skills. PhD graduates seek employment in academia, but also in research in the public, voluntary or private sectors and in a range of non-research jobs where they must analyse large amounts of evidence for complex decision-making. In Britain, less than 50% of researchers become academics. Hence there is no point in using manpower planning in the academic sector as the sole guide for PhD recruitment.

Moreover, it has long been known that there is no premium for undertaking a PhD. Few undertake a doctoral programme for monetary gain.

David Bogle
Professor
University College London
On behalf of the steering group of the League of European Research Universities Doctoral Studies Community

SIR - Discouraging the pursuit of the PhD degree would have serious adverse impacts on our ability to advance as a society-economically, technologically and culturally. Indeed, your own newspaper regularly touts the importance of scientific and technological advances in medicine, agriculture, energy and more. Our higher-education system of "apprentices" working with faculty is an important factor behind these advances.

Barbara Knuth
Dean of the Graduate School
Cornell University
Ithaca, New York

SIR - Who better to comment on the uselessness of doctoral degrees than an American pursing a PhD in Canadian studies? Many articles are written suggesting that graduate school is a waste of time; there are web comics (such as *Piled Higher and Deeper*) devoted to the difficulties that doctoral candidates encounter with their advisers; and there are people who are stuck in an endless loop of proposals, grants, unsuccessful experiments, etc. But I love what I do. I have the

opportunity to teach and lecture. My adviser is supportive. I can spend all day thinking and reading books, and that is OK as it is my job.

A doctoral degree is a choice, just like any other career path. There are other people who have bad bosses and boring dead-end jobs with no clear means of escape. It might be more useful to direct advice towards those people, who are limited or constrained in some way, rather than doctoral candidates who can leave their programmes and do something else if they are dissatisfied with the process.

Amanda Murphy
Chicago

SIR - Scholarly learning or academic training is useless without either market demand or real-life applicability. The self-willed existence of redundant PhD programmes mirrors academic isolationism, anachronism and narcissism. It's time the academic world rethought the sustainability of the PhD system and reformed it in the best interest of both the gowns and the towns.

Daan Pan
Chino Hills, California

SIR - I am reminded of my very wise professor's words of wisdom: the PhD student is someone who forgoes current income in order to forgo future income. Years later, that sage insight seems to have been borne out by the more recent evidence.

Paul Greenberg
Managing principal
Analysis Group
Boston

Sailing on the green seas

SIR - The subtitle to your article on ships as polluters read: "Ships are filthy. A new website shows how filthy" ("Smokestack lightening", December 11th). Shipping transports about 90% of the world's trade and emits 2.7% of the world's emissions. The per tonne of cargo transported by a very large crude-oil carrier of about 310,000 tonnes capacity is 153 times more energy efficient per tonne of cargo than a Boeing 747-400, 63 times more energy efficient than a small truck, 14 times more energy efficient than a large truck and five times more energy efficient than a train. This simple fact should have caused you to question the information on which you based your article.

Shipowners or operators have every incentive to economise on fuel consumption, considering fuel represents a very large proportion of the overall transport cost, but they do not design the ships. Every ship on the market wanting to secure employment is advertised with its deadweight capacity, speed and consumption clearly stated for all to see. Transparency in shipping is not an issue.

George Gratsos
President
Hellenic Chamber of Shipping
Piraeus, Greece

SIR - Thanks largely to technological developments and industry practice the energy efficiency of ships is some 20% higher than in the 1970s, which means ships burn less fuel and generate less emissions. To further reduce greenhouse-gas emissions from ships, the International Maritime Organisation's marine environment protection committee has developed a robust package of ship design and operation measures that are ready to be enacted as international maritime law. These could achieve reductions of up to 75% in ships' emissions and would be the first regulatory package adopted by any industrial sector at the global level.

Jo Espinoza-Ferrey
Head, policy and planning unit
International Maritime Organisation
London

Memories of Richard Holbrooke

* SIR - Regarding your obituary of Richard Holbrooke (December 18th), in 1996 I was treated to the full range of Holbrooke personalities from "bulldozer" to "charmer" all within four hours, spent mostly in a windowless government conference room in New York. As the Republican chief counsel for a congressional investigation, I was locked in an agonising debate with Mr Holbrooke, who was still basking in the glow of his Dayton triumph, during his deposition regarding Iranian arms shipments to Bosnian Muslims during the war. Assertive, contentious and fiercely protective of the Clinton administration's policy in the Balkans, he was nonetheless the most straightforward, honest and impressive witness I interviewed during the whole inquiry.

Minutes later he turned on the Holbrooke "charm", chatting with me on the street beside his limousine from First Boston about the "obscene" (his words) amount of money he was being paid after leaving government. He graciously offered me a ride to the airport.

I left the experience dazzled against my Republican will, by a man I was certain would one day become secretary of state. Had Hillary Clinton been our president, I am sure he would have been and the "grand hooded phantom" yesterday's nightmare.

Richard Pocker
Las Vegas

Tavern tales

SIR - Most of us regret the demise of so many British pubs, but in an otherwise excellent article on the subject you took an unnecessary side swipe at churches, which you described as "the preserve of a flower arranging few" ("Time, gentlemen", December 18th). In fact, a survey in 2003 found that nearly nine in ten adults in Britain had been into a church the previous year. They can't all be flower arrangers.

Churches remain the hub of communities up and down our land, in the way that they were long before the appearance of the pub as we know it. The number of Church of England churches offering service to their communities exceeds the number of banks and building societies combined. The role of the church as the only remaining community facility in many rural areas is crucial.

John Inge
Bishop of Worcester

* SIR - Boozers are for losers, almost exclusively male losers, and the community of "regulars" of which they are the beating heart is in fact a marginalised clutch of the most boring, lonely and embittered outcasts one can imagine.

Unfailingly glued to the bar like flies to a flypaper, they greet a stranger with menacing silence while the landlord sullenly ignores him for as long as possible. The beer he eventually serves is a foul, brownish liquid, overpriced and sour-tasting. Conversation, when it resumes, is a bleak and xenophobic digest of the day's press opinion or, worse, a third-hand dismal exchange on what is laughably known as "sport".

To anyone with a sane regard for social progress, the traditional pub cannot fail fast enough. It is encouraging that people are finally turning their backs on them. But hardly a mystery.

Rod Tipple
Cambridge, Cambridgeshire

SIR - Around 40 years ago some friends and I wandered into a small pub in Birstall, West Yorkshire. After enjoying the local bitter, we made the mistake of asking the elderly landlady whether we could have some crisps. She looked at us askance and tersely replied, "This is a pub, not a bloody restaurant." Those were the days.

Bill Catley
Hong Kong

* Letter appears online only

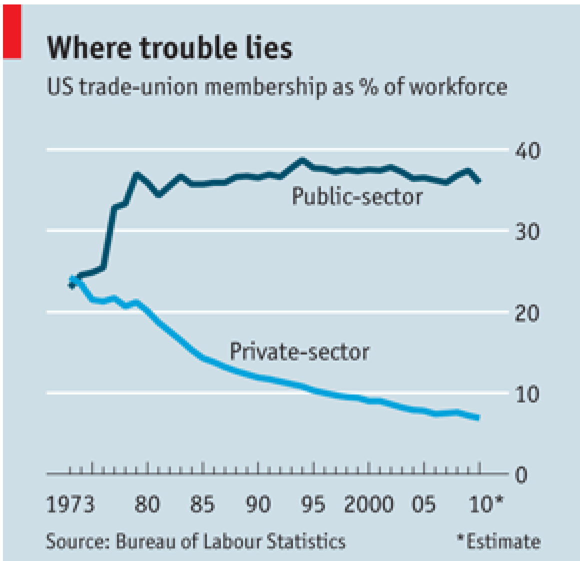
Public-sector workers

(Government) workers of the world unite!

Jan 6th 2011 | from PRINT EDITION

Public-sector unions have had a good few decades. Has their luck run out?

THE past 30 years have been dismal ones for the labour movement. In the American private sector trade-union density (ie, the proportion of workers who belong to unions) has fallen from a third in 1979 to just 7% today. In Britain it has dropped from 44% to 15%. Nor is this just an Anglo-Saxon oddity: less than a fifth of workers in the OECD belong to unions.



There is one big exception to this story of decline, however: the public sector. In the Canadian public sector union density has increased from 12% in 1960 to more than 70% today. In America it has increased over the same period from 11% to 36% (see chart). There are now more American workers in unions in the public sector (7.6m) than in the private sector (7.1m), although the private sector employs five times as many people. Union density is now higher in the public sector than it was in the private sector in its glory days, in the 1950s.

Even countries that have seen a dilution of union density in the public sector have seen it stabilise at a much higher level than in the private sector. In Britain density has fallen dramatically from 82% in 1979, but has stabilised at about 56%. Reliable global statistics are hard to come by; but evidence from many countries (including Germany and Japan) suggests that the gap between the public and private sectors is both substantial and growing.

This private-public shift has transformed the trade union movement. In the 1950s unions were solidly working class, dominated by men who had left school at 16 and leant left on economics but right on social issues. Today they are much more middle-class: more than a quarter of American unionists have college degrees, and even more have liberal views on social and environmental issues.

The shift has also created tension between the public and private sectors. The private sector is dominated by competition and turbulence. Performance-related pay is the norm, and redundancy commonplace. The public sector, by contrast, is a haven of security and stability. Many people have jobs for life and performance measures are rare. The result is a paradox: the typical public worker is better off than the people he is supposed to serve, and the gap has widened significantly over the past decade. In America, pay and benefits have grown twice as fast in the public sector as they have in the private sector.

Now that the sovereign-debt crisis is forcing governments to put their houses in order, the growing discrepancy between conditions in the public and private sectors has eroded much of the sympathy public-sector workers might once have enjoyed. This briefing will look at what the future holds for them. But first it will try to answer two questions: how did public-sector unions become so powerful? And what impact has their power had on the way the public sector works?

I'm all right, Jack

Public-sector unions are some of the world's most powerful interest groups. Many of them have large memberships and comparably large wallets: the American National Education Association, the main teachers' union, has 3.2m members, an annual budget of over $300m and a vibrant tradition of political activism. But their influence goes much deeper. In many countries unions prop up the left. In Britain Ed Miliband, the leader of the Labour Party, owes his job to trade-union votes. In America Andy Stern, the head of the Service Employees International Union, was the most frequent guest at the White House in the first six months of Barack Obama's presidency.

Public-sector unions enjoy advantages that their private-sector rivals only dream of. As providers of vital monopoly services, they can close down entire cities. And as powerful political machines, they can help to pick the people who sit on the other side of the bargaining table. Daniel DiSalvo, the author of an excellent essay on America's public-sector unions in *National Affairs*, points out that the American Federation of State, County and Municipal Employees was the biggest contributor to political campaigns in 1989-2004. He also notes that such influence is more decisive in local campaigns, where turnout is low, than in national ones.

Even if they fail to elect "their" candidates, public-sector unions have a relatively easy time negotiating with politicians. Private-sector bosses are accustomed to playing hardball with unions because they know they can go bankrupt if they don't. Politicians have no such discipline: they can always raise taxes or borrow from future generations. Those who have challenged the unions have often regretted it. California's former governor, Arnold Schwarzenegger, tried to fight the unions in the court of public opinion, only to be outgunned. Others have attempted a more stopgap approach, only to get the blame when services are disrupted.

Economists still debate exactly what impact public-sector unions have on pay. Evidence from the American Bureau of Labour Statistics support the conservative argument that they have used their power to extract a wage premium: public-sector workers earn, on average, a third more than their private-sector counterparts. Left-leaning economists reply that public-sector workers are, on average, better educated. Whatever the merits of this argument, three things seem clear. Unions have suppressed wage differentials in the public sector. They have extracted excellent benefits for their members. And they have protected underperforming workers from being sacked.

Wage differentials are relatively small in the public sector. Lower-level workers, such as secretaries, are usually better paid than their private-sector equivalents, whereas higher-level workers are worse paid. This not only makes it difficult to attract high-flyers into the public sector, but also makes it hard to raise standards by, for instance, putting the best head teachers in charge of groups of schools.

At the same time, benefits are generous in the public sector. Governments tend to give their workers light workloads and generous pensions in lieu of higher wages (which have to come out of the current budget). In America teachers teach for a mere 180 days a year. In Brazil they have the right to take 40 days off a year-out of 200 working days-without giving an explanation or losing a *centavo* of pay. The defined-benefits revolution that has swept through the private sector has hardly touched the public one: 90% of American state- and local-government workers have defined-benefit plans, compared with 20% of private-sector workers.

Generous pensions have produced an epidemic of early retirement. In Brazil civil servants can retire on full pay after 35 years on the job (30 for women) and teachers can retire after 30 years (25 for women). The result is that Brazil spends as high a proportion of its GDP on pensions (12%) as Britain does, even though the population is much younger. In Poland soldiers and policemen can retire after just 15 years, so it is possible to come across 33-year-old retirees. Add to this the fact that any public-sector worker can hide behind union power to game the system-82% of senior California Highway Patrol officers discover a disabling injury about a year before they retire-and you have a dysfunctional mess.

Unions have also made it almost impossible to sack incompetent workers. In Greece there is a law against sacking government workers solely on grounds of poor performance. In other countries there might as well be. Mary Jo McGrath, a Californian lawyer, says that "getting rid of a problem teacher can make the O.J. [Simpson] trial look like a cakewalk." In 2000-10 the Los Angeles school district spent $3.5m trying to get rid of seven of its 33,000 teachers, and succeeded with only five. The problem extends across the country (see article).

Incompetence is so endemic that several countries have invented phrases to deal with it. Brazilians joke that public-sector workers turn up on the first day, hang their jackets on the back of the chair, and are never seen again. The Greeks talk about putting incompetents "in the fridge"-giving them pretend jobs. In France it is the cupboard. Americans refer to "the dance of the lemons"-the practice of reassigning bad teachers to new schools rather than getting rid of them. They also refer to the "rubber room" where incompetent or criminal teachers bounce around, often for years, while administrators and unions haggle over what is to be done with them.

Fattening Leviathan

The unions' influence extends to the size and nature of the public sector. Private-sector unions have learned to exercise self-restraint when it comes to pushing for more manpower: they realise that more workers may reduce the wages of their members and that a higher wage bill may drive their employers out of business. But public-sector unions are relentless in demanding more resources and more personnel, which conveniently translate into more members and more dues.

Their most dramatic success has been in Britain. When Britain's union-backed New Labour government came to power in 1997, public spending accounted for almost 40% of GDP. When it left power in 2010 public spending was nearly 50% of GDP (partly, to be fair, as a result of recession), and 1m workers had been added to the public-sector payrolls. In California, as Mr DiSalvo points out, the prison guards' union has been one of the leading advocates of getting tough on crime. The result of this policy has been a dramatic increase in both the size of the state's prison-industrial complex (from 12 prisons in 1980 to 33 in 2000) and the pay of the people who run it (prison guards in 2006 made $70,000 a year in base salary and $100,000 with overtime). But public-sector unions can prosper simply by opposing rationalisation: Buffalo, in New York state, has as many public workers in 2006 as it did in 1950, despite the fact that the city has lost half its population.

Public-sector unions combine support for higher spending with vigorous opposition to more accountability. Almost everywhere they have demonised competition, transparency and flexible pay. Teachers' unions have often acted as the Praetorian Guard in this fight. In Poland they are up in arms against attempts to increase the number of hours a week (a mere 18) they have to spend teaching. In Sao Paulo state, in Brazil, teachers have organised huge marches against government attempts to link promotion to performance and to reduce the number of days they can take off without notice. In Greece they have fought four consecutive education ministers from different parties over performance reviews. In Britain they are trying to kill "free" schools, which can be set up outside local-authority control. In America they have fought relentlessly against charter schools (which escape union rules about pay and promotion) and scholarship schemes (which give choice to parents).

The teachers' unions have an impressive record of terminating reformers. When Marietta Giannakou, the education minister in the last New Democracy government in Greece, insisted on teacher accountability, she lost her seat at the next election. Michelle Rhee, the chancellor of the awful school system in Washington, DC, closed failing schools, fired more than 200 ineffective teachers and principals, and advocated merit pay. But the unions fought her every step of the way, using their muscle first to get rid of her patron, the city's mayor, and then to bring about her own resignation.

It is impossible to calculate the cost of the unions' inflexibility. But several recent studies provide some indications. Policy Exchange, a conservative think-tank, calculates that people in the British private sector work 23% more hours than their public-sector counterparts over their lifetimes, thanks to public-sector strikes, sick days and early retirement. Barry Bluestone, a left-wing economist, calculates that the price of America's public services increased by 41% in 2000-08, while that of private services rose by 27%. Eric Hanushek, an economist at Stanford University, argues that replacing the bottom 5-8% of American teachers with merely average performers could move the United States from near the bottom to near the top of the international maths and science rankings.

The rigidity of the public sector does not merely reduce the quality of services. It also discourages innovation. In the private sector innovative firms routinely experiment with new business models, measure the success of those models and then expand successful ones. But whenever public-sector managers have tried to do the same-by establishing magnet schools that focus on certain subjects, or charter schools with longer teaching days, for example-the unions have opposed them. In France they have blocked any attempt to introduce more flexibility into the country's highly centralised education system, or indeed to change it at all.

Only Germany provides a chink of light. There, although around 60% of public-sector workers are unionised, wage increases in the public sector have lagged behind those in the private sector. And though civil servants, who make up nearly half the public-sector workforce, enjoy both special pension schemes and job security, they are not allowed to strike. Indeed, the idea of going on strike for political reasons is unthinkable among all public-sector workers in Germany.

The battle ahead

Public-sector unions now face the biggest challenge in their history. Governments almost everywhere-particularly in the rich world-are being forced to cut back public spending. Many governments (for example in Ireland, Greece and Spain) are cutting public-sector pay. Others (for example in Japan and America) are freezing it. Greece is increasing the retirement age from 58 to 63 and making it possible to fire public servants. Britain is cutting government departments by as much as a quarter, and is reviewing pensions.

In the United States several rising Republican governors are keen to turn the short-term struggle over pay and benefits into a bigger battle about trade-union power. New Jersey's Chris Christie (see article) and Minnesota's Tim Pawlenty have both eagerly taken on the new "privileged class" of public-sector workers. Do the public exist to serve public-sector workers with their high pay and inflated benefits, they ask, or do public-sector workers exist to serve the public?

Even people on the left are beginning to echo these complaints. Andrew Cuomo, the incoming Democratic governor of New York, is rattling his sabre against public-sector unions despite the fact that they make up an important part of his base. Davis Guggenheim, an impeccably liberal film director whose credits include Al Gore's "An Inconvenient Truth", subjected the teachers' unions to a merciless critique in "Waiting for Superman", flagellating them for perpetuating a broken system and presenting Randi Weingarten, the head of the American Federation of Teachers, as "something of a foaming satanic beast", as the *Variety* reviewer put it.

The unions have responded by proclaiming war on cost-cutting governments. They have already organised strikes and protests. Millions of French workers marched against Nicolas Sarkozy's modest plans to raise the retirement age by two years. Hundreds of thousands of people have taken to the streets in Ireland and Greece against austerity measures. London Underground workers have repeatedly paralysed transport in the city. But this is a mere prelude. Unions across Europe have promised strikes in 2011 on a scale not seen since the 1980s.

Public-sector unions will find it hard to win these battles. They have not been particularly successful in mobilising public anger, considering the scale of the cutbacks. Nor have they notched up any notable victories: the Greek and Irish governments have implemented their austerity packages and Nicolas Sarkozy has raised the retirement age. They are also discovering that many people in the private sector regard their public-sector colleagues as an overprivileged elite. Spanish civil servants were shocked at how little support they got when, last June, they protested against a 5% cut in pay. And a recent poll showed that 65% of people in stick-in-the-mud Greece want civil servants to lose their job security.

The pressure to rationalise the public sector is likely to continue in coming years. The debt level in OECD countries is expected to rise to 120% of GDP by 2014, thanks to a combination of ageing populations and inherited obligations, some of them driven by the public sector's insatiable appetite for pensions. Joshua Rauh, of the Kellogg School of Management at Northwestern University, reckons that seven American states will have exhausted their pension assets by 2020.

It would be a mistake to write off the public-sector unions. They are masters of diverting attention from strategic to tactical questions. Undoubtedly the unions will lose some of their privileges over the coming years; the scale of the debt crisis makes this inevitable. But will governments have the courage to tackle the root causes of the problem (such as pensions) rather than dealing with secondary problems (such as wages)? And will they dare to tackle questions of power rather than just pay and perks? If they are to claim victory in the coming fight, they need not just to restore the public finances to health. They also need to breathe the spirit of innovation into Leviathan.

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The 112th Congress convenes

In discord assembled

Jan 6th 2011 | *WASHINGTON, DC* | from PRINT EDITION

Bickering and stalemate loom for America's new Congress

THE first act of the new Republican majority in the House of Representatives, which took control of the chamber this week after four years of Democratic rule, was to order the constitution to be read aloud on the House floor. This crash course in civics was intended chiefly as a gesture of fealty to the tea-party activists, or "constitutional conservatives", who helped propel the Republicans to power in November's election. But the reading also serves as a stark reminder of the many celebrated "checks and balances" built into America's political system, and thus how hard it will be for the new regime to get anything done.

Take another of the Republicans' first acts: the scheduling of a vote on January 12th to repeal the health-care reforms passed by the previous, Democrat-controlled Congress. The measure is all but certain to pass, given the Republicans' healthy majority of 242-193, and may even attract the votes of a few Democrats. But it is also all but certain to run aground in the Senate, which remains tilted 53-47 in the Democrats' favour. A further obstacle to the ambitions of the House Republicans is the president's power to veto any bill he dislikes. As their recent primer on the constitution will have reminded them, it takes a two-thirds vote of both chambers-something far beyond the Republicans' reach-to overturn a presidential veto.

Thus most of the measures with which the Republicans are marking their ascendancy are symbolic. In another sop to the tea-partiers, they have drawn up new rules requiring every bill to specify the precise passage of the constitution that empowers Congress to act on the matter at hand. In a jab at the unions, they have changed the name of what used to be the Committee on Education and Labour to the Committee on Education and the Workforce. And to embarrass the president, Darrell Issa, the new chairman of the Committee on Oversight, has announced no fewer than six investigations he plans to conduct, into suspected incompetence at various government agencies and the like.

In a show of their determination to cut spending, the Republicans plan to vote in their first week to trim the House's own budget by 5%. They have also changed House rules to ensure that all increases in spending are offset by commensurate cuts, rather than increases in tax. In fact, it is in fiscal matters that the Republicans will have the most leverage. Their support will be needed in the coming months both to pass a budget and to raise the legal limit on America's debt. The stakes are high: failure to agree on the former would prompt the government to suspend all but its most basic functions; neglecting the latter would entail defaulting on America's debts.

Republican leaders say they want to avoid any such cataclysms, but are also insisting on cuts. Paul Ryan, the new chairman of the House Budget Committee, maintains that he will pare back non-security spending in what remains of the current fiscal year to the level of 2008. That would mean a cut of roughly 20% or about $50 billion, a drop in the ocean. That is broadly consistent with the Republicans' pre-election promises, but is considered far too severe by the Democrats in the Senate, the president and milder Republicans.

By the same token, many of the Republicans' fiercest deficit hawks say they will not allow the debt ceiling to be raised unless they secure swingeing budget cuts. The Republican leadership appear worried that an unseemly zeal to slash spending and precipitate a melodramatic showdown with the Democrats would alienate moderate voters at the general election next year. But they also tend to bow to the zealots in the party who agitate feverishly-and often successfully-to unseat in the primaries anyone without a similar gleam in their eyes. Just how these impasses will be resolved, and with what amount of brinkmanship, is anyone's guess.

Barack Obama, for one, seems to assume that the Republicans will indulge in a spell of futile pandering to their base before compromising on the budget and perhaps a few other matters. "That's what happens in Washington," he said breezily this week, on his way back from a holiday in Hawaii. Some observers see scope for bipartisanship on trade deals or an overhaul of immigration laws, although that would depend, presumably, on how poisonous the negotiations over the budget become.

A good indicator of Congress's likely descent into bickering and stalemate is the sudden interest in both chambers in the rules of procedure. John Boehner, the new speaker of the House, has resorted to a procedural gimmick to try to impose spending cuts until a new budget is passed. He has also instituted new rules intended to rein in the deficit, but has exempted from them some of the Republicans' most cherished but expensive goals, such as further extending the temporary tax cuts agreed with the Democrats last month.

In the Senate, meanwhile, Democrats are threatening to make it harder for the Republican minority to obstruct the will of the majority. As soon as the chamber convened on January 5th, Tom Udall, a Democrat from New Mexico, put forward a motion to change the rules of the filibuster, whereby 41 of the 100 senators can stymie almost any measure. Normally, such a change would require the approval of two-thirds of senators. But on one interpretation of procedure the rules can be changed by a simple majority of senators at the beginning of a new Congress.

Republican senators complain that the Democrats, having lost the election, are now trying to subvert its result. Somewhat contradictorily, they are decrying the attack on the Senate's traditions even as they threaten similar acts of vengeance should they win control of the chamber at the next election. Resorting to yet another procedural ruse, Harry Reid, the leader of the Democratic majority, has deferred the matter for a few weeks in the hope of striking some sort of deal with the Republicans. Even if the Democrats in the Senate get their way, however, they will be just as constrained by America's newly divided government as the Republicans.

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Improving teachers

Lessons learned

Jan 6th 2011 | *CHICAGO* | from PRINT EDITION

At last, America may change the way it trains, recruits and rewards teachers

BUDGET, curriculum, class size-none has a greater effect on a student than his or her teacher. Given this, politicians might be expected to do all in their power to ensure that America's teachers are good ones. For decades, they have done the opposite. The trouble begins long before a teacher enters the classroom. In Singapore, which recently came second in an international ranking of 15-year-olds' skill in maths (America was 31st), the teacher-training programme accepts only students in the top 30% of their academic cohort. In America, most teachers were mediocre students. Only 23% of new teachers were in the top third of college graduates.

Union rules make it extremely hard to fire teachers who turn out to be bad at their jobs. Younger teachers are usually the first to be let go, even though seniority does not necessarily ensure quality. In 2009 Indiana and Florida fired young staff who had been nominated for "teacher of the year".

But the debate over bad teachers ignores an equally big problem: there has been little effort to identify good ones, let alone reward them. A survey by the New Teacher Project, a non-profit organisation, found that school districts labelled more than 99% of their teachers "satisfactory".

However America is slowly changing its way of recruiting, training and rewarding teachers. Last year 12% of seniors at Ivy League colleges applied to Teach for America, which sends graduates to teach at tough schools for two years. The New Teacher Project has a prestigious fellows programme that recruits and certifies new teachers. The Academy of Urban School Leadership in Chicago trains teachers in a programme modelled after a medical residency-part traditional coursework, part training in a classroom. Such models may become more common; in November the National Council for Accreditation of Teacher Education recommended that residency-style programmes become the norm. Eight states have already agreed to implement its suggestions.

Most difficult, however, is finding ways to evaluate teachers, rewarding the good and dismissing the bad. In 2009 Arne Duncan, Barack Obama's education secretary, outlined his reforms in a speech to the National Education Association (NEA), America's biggest union. "When inflexible seniority and rigid tenure rules that we designed put adults ahead of children," Mr Duncan insisted, "then we are not only putting kids at risk, we're also putting the entire education system at risk." Some members of the audience booed.

Mr Duncan's guidelines for Race to the Top, a $4.3 billion programme paid for with stimulus money, include rewards for states that evaluate teachers in new ways. As a result, some states have removed their ban on using test scores to judge teachers. Others have gone much further. Tennessee, which won a grant, now requires districts to create new evaluation systems, with at least half of the score based on students' progress. In Colorado, Delaware and Rhode Island, teachers rated "ineffective" for two consecutive years can be sacked.

The reforms have rankled with the NEA, as expected. The American Federation of Teachers (AFT), the second-largest teachers union, has a more complex stance. "Conflict has been the status quo for all my years in education," says Randi Weingarten, the AFT's president. She insists that unions should spur change. She praised bold reforms in Colorado, while that state's NEA opposed them. But she clashed ferociously with Michelle Rhee, then the schools chief in Washington, DC. Ms Rhee's new group, StudentsFirst, aims to be a counterweight to the unions.

Despite this brewing battle, America has at least one model of peaceful change. In 2009 Hillsborough County, Florida, won a grant from the Gates Foundation to transform its way of evaluating, developing and rewarding teachers. Notably, the district is working productively with its union. "I want to be fair to my employees," explains Mary Ellen Elia, Hillsborough's superintendent. "I also want to have only good teachers in my classrooms." Teachers will be judged on their pupils' progress, as well as evaluations by a principal and by a peer. Teachers with high ratings, based on three years of data, will have higher salaries. Bad teachers will see their salaries shrink. A struggling teacher will receive further training. If he continues to be ineffective, Mrs Elia will act to remove him.

The Gates Foundation hopes that further research will see such reforms replicated elsewhere. In seven districts, including Hillsborough, the foundation is testing methods for measuring a good teacher. Researchers are trying to answer teachers' questions about whether such a feat is possible-are observations biased, for example, and can one isolate a teacher's effect on a students' progress?

The biggest change may come with the reauthorisation of the Elementary and Secondary Education (ESEA) bill. Its most recent incarnation, No Child Left Behind, required that all teachers be "highly qualified", state-certified and competent in the subjects they teach. Messrs Duncan and Obama want to value effective teachers, not "qualified" ones. Under their plan for ESEA, states would have to improve their evaluation systems. Grants would go to states and districts that develop innovative ways to train or reward good teachers.

A fight over these plans is inevitable. However John Kline, the new Republican chairman of the House education committee, has praised Mr Duncan's reforms. Mr Obama and the Republicans were remarkably productive in December. If the co-operation continues, they just might transform American education.

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The Deepwater Horizon report

Blame and shame

Jan 6th 2011 | from PRINT EDITION

A chronicle of deaths that should have been foretold

TONY HAYWARD, BP's chief executive when the Deepwater Horizon rig caught fire and sank in April 2010, famously remarked that, "To put it simply, there was a bad cement job." The report of the National Oil Spill Commission set up by Barack Obama to look into the loss of the rig and the subsequent massive oil spill, a portion of which was released on January 6th, differs subtly but crucially. The fundamental problem was not the dodgy cementing: it was BP's failure to exercise proper caution before relying on that cementing.

As previous analyses of the accident, including BP's own, have shown, the flawed cementing that let oil into the bottom of the supposedly sealed well was not the only issue. Subsequent portents were missed, procedures altered and tests muffed which should have saved the rig. Where the new report stands out is in showing how options that would have reduced the risk, like thorough cement testing, were systematically forgone in favour of cheaper alternatives without due consideration.

BP bears the brunt of the report's stinging criticism, but not all of it. The report says that tests by Halliburton, contracted to do the cementing, showed the cement being used was unlikely to set stably and effectively in the well; but Halliburton did not communicate that conclusion, or, it seems, all of the results, to BP. Transocean, which owned and ran the rig, failed to give anything like enough weight to the lessons of an "eerily similar" accident on one of its rigs in the North Sea the year before, which was only just kept under control.

The criticism of Transocean and Halliburton is not just a problem for those American companies; it is the foundation of the report's assertion that the oil industry has a systemic problem. As the commission's co-chair, William Reilly, has pointed out, there are oil companies with exemplary safety records. BP might just have been a bad egg. But the fact that all three of the companies working on the Deepwater Horizon made fatal errors in their management and communications indicates that there is much to be fixed in the attitudes and practices of the industry as a whole. These broader issues, and what the government might now do about them, are sure to make up much of the meat of the rest of the report, due for release next week.

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Chris Christie

The conservative crush

Jan 6th 2011 | *HACKETTSTOWN AND LIVINGSTON* | from PRINT EDITION

New Jersey's governor is growing in national prominence

You can count on Christie, so far

NEW JERSEY has its fair share of rock stars. Bruce Springsteen sings about the seaside towns along the Jersey shore. Bon Jovi, a New Jersey band noted for big hair and tight trousers, have named an album after their home state. Frank Sinatra, a rock star before there were rock stars, was from Hoboken. But at present the biggest star in New Jersey is its larger-than-life governor, Chris Christie.

Since September Mr Christie has been on tour, holding town-hall meetings all over the state to promote his reform agenda, or "toolkit", as he calls it. Flanked by a "Rethink, Reform, Rebuild New Jersey" banner, he speaks engagingly-and without notes-about cutting spending and lowering taxes. After his speech, by turns indignant, self-effacing, funny and sentimental, he takes off his suit jacket and takes questions from the floor. This is the part of the meeting that, as he warns questioners, tends to go viral on YouTube.

He has made his mark in his first year as governor, no small feat for a fiscally hawkish Republican in a Democratic state. He tackled an astronomically large budget deficit, cutting $3 billion without raising taxes. Among many other things, he cut $445m in municipal funds without blinking. This could force some of the state's 566 local governments to begin sharing services or consider consolidating, reducing pressure on the state pension system. Without reform the state pension fund, which is underfunded by $46 billion, could run out in 2019. Mr Christie, though, has a plan: he wants public employees to pay more into the system and to retire later.

The governor has also faced down the teachers union. He has told pupils it is the union's fault, not his, that they don't have pens and paper. He has blasted the union for "using students like drug mules to carry information". He hates teacher tenure, which he says protects bad teachers, who should be "carried out on a rail". The unions are listening. In December they put forward a tenure-reform proposal; Mr Christie thinks it is still inadequate.

The Tax Foundation, a non-partisan think-tank, ranks New Jersey 48th in the country for its business climate. Mr Christie notes, however, that this marks an improvement over last year, when it came bottom. Businesses are happier. Honeywell, a technology and manufacturing company, had intended to leave the state, but decided over the summer to stay after the governor offered to boost tax credits. Meanwhile Coca-Cola is building a new factory in New Jersey, bringing 650 jobs.

Mr Christie complains that the legislature is dragging its feet over his reforms, but he has made some headway. He convinced it to cap property taxes at 2%. On December 9th he brokered a bipartisan reform to pay arbitration. His supporters say he is changing the culture of politics in New Jersey. But there has been controversy along the way. Mr Christie is sceptical about climate change. He refused to reappoint a state Supreme Court justice. He cancelled what would have been the largest infrastructure project in the country, an $8.7 billion railway tunnel linking New Jersey to Manhattan-but Republicans raved over his frugality and decisiveness, and more than half of New Jersey voters, including many Democrats, supported his decision.

Polls show that he is viewed more favourably now than when he was elected. His message is resonating not just in New Jersey, but across the country, tapping into the same frustration that created the tea-party movement. Mr Christie is using his bully pulpit in a way no other New Jersey governor has done in modern history. And he has another useful political skill: he keeps people off guard, never quite knowing whether the extra-large governor is going to beat them up or embrace them.

No wonder some conservatives hope for a Christie presidential run. "Is it wrong to love another man?" asked Rush Limbaugh on his radio show. "Because I love Chris Christie!" But for now, the governor is not interested. His main hope is still to be governor in 2014, when the football Super Bowl will be played at the Giants Stadium. Those close to him take him at his word.

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Cowboy boots

A certain swagger

Jan 6th 2011 | *AUSTIN* | from PRINT EDITION

America's most confident shoe?

Not for faintheart

FOR his 16th birthday, Blake Kobelan's father gave him a pair of cowboy boots from Texas Traditions, one of America's most renowned custom bootmakers. On a sunny December morning in Austin, after nearly four years on the waiting list, the time had come to make some styling decisions. Mr Kobelan discusses the matter with Carrlyn Miller, who runs the shop with her husband Lee. Ostrich and kangaroo, they think; black, with a white state of Texas on the front; flags on the pull-straps.

The office is stuffed with handmade boots created down the decades, some simply stitched, others worked with elaborate designs of wild flowers, birds, or barbed wire. In one corner stands the leather cupboard, stocked with exotic skins in a

rainbow of colours. Mr Miller pulls a tobacco-coloured, alligator-shaped alligator skin and smoothes it out on the floor. He explains that the flanks are the most prized part of the beast's skin; the small plates there are less vulnerable to cracking.

The American West's distinctive version of riding boots is often thought to have originated in Kansas in the 1880s, when a Colorado-based cowboy asked a cobbler to make him a special pair of boots: narrow through the foot to slide easily through the stirrup, with a stacked heel to grip it. Whatever the provenance, the style spread quickly among cowboys, and soon beyond. Cowboy boots are now popular around the world.

"I have a theory that when America pulls out of a recession, it's a boom time for boots," says Jennifer June, who has written a book on the subject and runs an online forum for boot lovers. She reckons that cowboy boots project a certain amount of confidence and stability: despite the heel, the wearer could take off running after a kite or a dog at a moment's notice.

Custom boots preserve the tradition, but offer more room for personal expression. There are perhaps 250 custom bootmakers in the United States, and the waiting list for the most admired makers, like Mr Miller, can stretch for several years. It may take half an hour to measure a foot in a dozen dimensions, and a basic boot takes perhaps 40 hours of labour. Prices start at around $2,000 and rise steeply, depending on materials and styling. Converts say there is no substitute for the fit and craftsmanship.

Alas, some enthusiasts have not achieved the necessary means to hit that price point. The Millers offer a few tips for off-the-shelf customers. Avoid boots with padding inside, a sure sign of shoddy construction. And look for wooden pegs rather than nails in the soles: when wet, the wood expands and contracts with the leather. That way, this working boot works with you.

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Rural health care

Country doc, city doc

Jan 6th 2011 | *ATLANTA* | from PRINT EDITION

Rural America needs more doctors

JASON DEES was raised in New Albany, Mississippi, the seat of rural Union County, in the north-central part of the state. He moved away for college and medical school, then moved back to start a family medical practice in 2003, and has since found that "one of the most exciting things about rural family medicine is that you spend your life taking care of people you really care about...the reward comes through the joy of caring for patients."

That is good, because the reward of being a family doctor certainly is not monetary-at least not when compared with the stratospheric salaries of medical specialists. The average family doctor earns $175,000 a year (admittedly hardly a pauper's wage), compared with $385,000 for oncologists, $417,000 for radiologists and $519,000 for orthopaedic surgeons, according to Merritt Hawkins, a physician placement service. Small wonder that only around 9% of American medical-school graduates choose family practice (general practice, in British parlance)-a rate that according to the American Academy of Family Physicians will leave the country short of around 40,000 family doctors by 2020.

In all, around 65m Americans live in federally-designated primary-care health-professional shortage areas (HPSAs), which are regions with 2,000 or more residents per primary-care doctor. The paucity of family doctors naturally has a particularly strong impact on rural communities, which are home to around one-fifth of America's population but only one-tenth of its doctors, most of whom practise family medicine. In Georgia, for instance, which is a heavily agricultural state, there are medically underserved areas or populations in 144 of the state's 159 counties. America's rural population tends to be older and poorer than average, with higher rates of smoking and obesity, and consequently in greater need of medical care; by virtue of geography people living in rural HPSAs are often farther from medical care than urban ones.

Federal funding provides some help: some doctors who practise in underserved areas are eligible for higher reimbursements from Medicare-a particular draw for rural doctors, as people outside metropolitan regions are more likely to be uninsured than their big-city counterparts. And Barack Obama's new health-reform bill provides increased funding for primary-care residencies and for medical schools likely to train rural doctors. It also provides $9.5 billion over the next five years for clinics and health centres catering to underserved patients.

There are also state incentives: in Georgia, Mercer University's medical school trains students specifically for underserved and rural parts of Georgia, while the state's oldest medical school, Medical College of Georgia, has a campus in the rural south-western part of the state. According to William Bina, who heads Mercer's medical school, there are around 400 Mercer-trained doctors working in rural or underserved parts of the state. Perhaps the most effective incentive, available through federal and many state programmes, is loan forgiveness for medical graduates who work in underserved areas-hardly surprising, since the average medical student graduates with debts of $155,000.

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Rows over GM crops

Seed of change

Jan 6th 2011 | *CHICAGO* | from PRINT EDITION

America may shift its policy on genetically modified crops

Spot the difference

EUROPEANS are notoriously squeamish about genetically modified (GM) crops. In America, however, they reign supreme. Since farmers first planted GM soya in 1996, engineered crops have steadily conquered America's vast farmland. Last year 93% of cotton and soya acres contained genetically engineered crops, as did 86% of corn acres. In the past the Agriculture Department (USDA) has placed relatively meagre limits on this expansion. This month, however, that may change.

Alfalfa, that humble feedstuff, is at the heart of an intense debate. The USDA will soon decide how to regulate Roundup Ready alfalfa, engineered by Monsanto to resist a chemical used to kill weeds. The department may allow GM alfalfa but, for the first time, set strict rules on the extent of planting allowed. This could be a model for the future, the biggest policy change for GM crops since their introduction. Tom Vilsack, the agriculture secretary, says that the issue is not whether GM alfalfa is safe-the USDA maintains that it is. Rather, the question is how regulations might help engineered crops exist beside conventional and organic ones. It is a fraught endeavour.

The rule on alfalfa aims to ease growing trouble, on the fields and in court. America's farms have seen two divergent trends over the past 15 years: the rise of GM crops and, on a smaller scale, an expanding market for organic products. Theirs is not a peaceful relationship. Wind has an unfortunate tendency to blow GM seed into organic fields. Farmers, like all good Americans, are stubborn and litigious. Lawsuits about contaminated fields have moved through the courts. One such case concerns GM alfalfa.

In 2005 the USDA approved Roundup Ready alfalfa. Opponents of GM crops filed a lawsuit soon after and, in 2007, a federal judge ordered the USDA to conduct a more lengthy review. After publishing a draft report in 2009 and receiving some 244,000 comments, the USDA issued its final report on December 16th. The department presented two preferred options. First, it may allow GM alfalfa to be grown freely, like GM corn or soya. In the second choice, it would approve planting with rules to prevent the contamination of non-GM crops. For example, five miles (8km) would have to separate GM alfalfa from conventional or organic alfalfa fields. The USDA will receive comments on the plan until January 24th. A decision is expected soon after, so that farmers can prepare for spring planting.

A frenzy of activity has followed December's report, with Mr Vilsack encouraging further discussion among farm groups. At a meeting at the USDA on December 20th, organic advocates demanded more, such as compensation for farmers whose crops are contaminated. Big farm associations were horrified-by the proposed rule and by the meeting itself. "What the USDA did on December 20th was akin to the European process," shudders Russell Williams of the American Farm Bureau Federation. Mr Williams fears that the rule on alfalfa augurs further limits on GM crops.

Mr Vilsack insists that his department does not prefer one type of farming over another. Rather, he wants to help them coexist more peacefully. Without any action, Mr Vilsack argues, courts will dictate the future of GM, organic and conventional crops. (In August a court halted planting of GM beets pending a review, and another lawsuit aims to stop GM eucalyptus trees.) Mr Vilsack's course will not be smooth. Opponents of GM crops sued the department over its original decision on alfalfa. Now GM advocates may sue the department over its new one.

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Lexington

Studying the Gipper

Jan 6th 2011 | from PRINT EDITION

What Barack Obama can and can't learn from Reagan's blithe spirit

RONALD REAGAN would have turned 100 next month. That may be one reason why the White House let it be known that when Barack Obama spent his Christmas vacation in Hawaii, his holiday reading list included Lou Cannon's "President Reagan: the Role of a Lifetime", a whopping biography of more than 800 pages. But the Reagan story may be on Mr Obama's mind for other reasons as well.

Like Harry Truman's and Bill Clinton's, the Reagan presidency is remembered as an example of how a president can do big things even when government is divided. On taking office in 1981 Reagan had a slim majority in the Senate but the Democrats controlled the House. This is the mirror image of the predicament that Mr Obama is having to confront only now, after two luxurious years of having a majority in both chambers. Like Mr Obama, Reagan inherited an economy in greater distress than America had experienced since the 1930s. More than 7% of workers were unemployed and inflation was north of 12%. But by the time he and Nancy retired to Bel Air in January 1989, the man known as the Gipper (after an early role in Hollywood) was basking in an approval rating of 64%, the highest of any departing president since Franklin Roosevelt. Little wonder that Mr Obama fancied dipping into Mr Cannon's biography for a tip or two.

Tearing down that wall

And yet the Reagan story contains no simple formula that Mr Obama can copy to be sure of an equally happy ending to his own presidential adventure. In big ways and small, the world of the 1980s was altogether different. History will remember for ever that the Soviet Union began to unravel on Reagan's watch, helped on its way both by the affable cold warrior's determination to overawe the "evil empire" with a vast hike in military spending and by the unexpected rapport he established with Mikhail Gorbachev. No remotely comparable foreign-policy triumph is available to Mr Obama. It was Reagan's good luck to become president when the Soviet system was rotting from within. Mr Obama's bad luck is to have the job at a time when America's new Chinese rival is not only rising but has also become Uncle Sam's principal creditor.

The economic parallels may be a bit closer. Unemployment rose in Reagan's first two years, as in Mr Obama's. Like the Democrats last November, the president's party was thumped in the mid-terms of 1982. Reagan's approval ratings two years in were in fact lower, at below 40%, than Mr Obama's, which have lately moved back up to around 50%. By 1984, however, a rebound brought about by steady policy (combined with a notably weak opponent in Walter Mondale) enabled Reagan to proclaim "morning in America", just in time to be re-elected in a landslide. By 2012 employment may have grown enough for Mr Obama to copy this trick, though it typically takes longer to create jobs in the aftermath of a recession produced by a financial collapse.

Among Republicans, time has burnished Reagan's place in the pantheon of presidents. His mantra that government was the problem rather than the solution was revolutionary for its time. But the revolution he made was decidedly incomplete. Having promised to boost military spending, cut taxes and balance the federal budget, he found the third of these promises beyond his reach. Redeeming it would have been possible only by cutting deep into entitlements, especially Social Security (pensions), an assault on the New Deal that Congress would not countenance and he did not press. Instead he sent eight unbalanced budgets in succession up to the Hill, the government spent more money than it raised, the budget deficit soared from $74 billion in 1980 to $220 billion in 1986 and America turned from a creditor into a borrower. The stern new fiscal conservatives taking their seats in the House this week would surely not have approved.

Reagan's two terms saw plenty of other failures. Ethical standards inside his administration were often lax. He oversaw a humiliating military retreat from Lebanon, the scandal of Iran-Contra, a too-timid response to the AIDS epidemic and a lot of inept deregulation, some of which contributed to the savings and loans crisis that led to a taxpayer bail-out under the first President Bush. He achieved almost nothing in education or health, and failed to restrict abortion as he had promised conservatives, probably insincerely.

Why are so few of the failures remembered? Craig Shirley, who worked to re-elect Reagan, argues that everyone always understood what he was about and where he was trying to go. That is unusual in a president. Mr Obama may burn with no less ardent a desire to be a "transformative" president: in 2008 he got into hot water with Democrats for praising this aspect of the Reagan presidency. But Mr Obama's complicated aspirations for America are harder to understand than Reagan's straightforward mission to shrink the state and battle communism, though admirers often glossed over the fact that federal spending as a share of GDP did not in the end shrink that much (from 22.2% to 21.2%).

Perhaps the hardest thing for Mr Obama to accept about Reagan is that Americans warmed to him not just because of what he did but also because of the sort of person he was. Mr Cannon argues that his political magic did not reside only in his happiness and folksy charm. His greatness was that "he carried a shining vision of America inside him." He had a simple belief that nothing was impossible in America if only government got out of the way. In rejecting the idea of limits, says Mr Cannon, he expressed a core conviction of the nation. Mr Obama does not share this belief, and is perhaps right not to.

The idea that nothing is impossible in and for America is an illusion. But Americans have never thanked their presidents for telling them so.

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Post-earthquake Haiti

The year of surviving in squalor

Jan 6th 2011 | *PORT-AU-PRINCE* | from PRINT EDITION

Even allowing for some unique difficulties, the efforts of the government and outsiders to rebuild have been disappointing

JANUARY 1st was the 207th anniversary of the day that Haiti became the second country in the Americas to declare independence. To mark their achievement of an equivocal freedom, Haitians traditionally eat pumpkin soup. This year some did not bother. "None of us felt like celebrating," said Micheline Michel, whose home is a shanty of bed sheets opposite the ruins of the National Palace. Instead, she spent the holiday hawking old clothes around the concrete carcasses of buildings that litter the city centre.

Around 1m Haitians have been living like Ms Michel in tents or under tarpaulins since January 12th last year, when Port-au-Prince was devastated by a huge earthquake officially estimated to have killed 230,000 people. A year that began with *goudou-goudou*, the onomatopoeic neologism Haitians use to refer to the quake, ended with cholera on a death march across the country, a sometimes violent electoral dispute and a palpable vacuum of leadership.

When she and her family sought refuge in their shelter last January, Ms Michel believed they would stay for a couple of weeks or maybe a month. "I never imagined that a year later, we'd still be living in such absolute misery," she says. Few did.

But when visiting journalists parachute in to Port-au-Prince for the anniversary of the earthquake, they will see few signs of progress and many of stasis. Rubble still blocks many streets. Even if the work of removing it goes according to the official schedule, less than half will be cleared by October. Only about 30,000 temporary shelters have been built. The National Palace, the emblem of Haitian sovereignty, has yet to be demolished, let alone rebuilt. The tent camps that dot the city look ever-shabbier, and their inhabitants thinner and more bedraggled.

This landscape of neglect and degradation mocks the widespread hope in the weeks after the quake that Haiti could "build back better," as Bill Clinton, the United Nations special envoy to the country, put it. The government's promising reconstruction plan, unveiled at a donor conference in March, envisioned moving many people outside the swollen capital and injecting economic life into rural areas, as well as rebuilding Port-au-Prince.

Little of this has happened. The only official relocation site is a barren wasteland on the outskirts of the capital which shelters fewer than 10,000 people, many of whom feel they were tricked into moving there. Donors pledged $5.8 billion for recovery and reconstruction until September 2011. But less than half of that has been disbursed, and a big chunk has gone on debt relief rather than fresh funds.

The Interim Haiti Reconstruction Commission (IHRC), with an equal number of Haitian and international members, was supposed to act as a powerful, open and accountable executive agency. But it has met rarely, its mandate expires in nine months, and at its fourth meeting in December the 12 Haitian members complained in a letter that they felt left out. Haiti remains a "republic of NGOs", as officials put it, some of which are doing vital relief work and others just getting in the way.

Some of the frustration stems from unrealistic expectations. Pamela Cox, a World Bank official who sits on the IHRC, points out that even rich, functioning states have struggled after catastrophes, as the United States did after Hurricane Katrina. Although she concedes that planning for reconstruction should have started earlier, Ms Cox says she sees progress: 400,000 houses have been assessed and classified by structural engineers, debris removal is accelerating and the economy has held up.

State institutions were already weak and dysfunctional in Haiti before the earthquake knocked out the capital. Rene Preval, the president, was in the last year of his mandate. Even so, many Haitians believe that his government demonstrated little will or concern for its people, or ability to meet even minimal expectations. However, the ruling party sprang into life when the campaign for a general election kicked off in October. It spent ostentatiously on the campaign.

Distracting though the election might have seemed, Haitians need a legitimate government to deal with the political issues at the heart of rebuilding, including land tenure, property rights and spending priorities. Investors and donors similarly need a legitimate government to ensure that their funds are not wasted.

But the election on November 28th became another setback. Hundreds of thousands of Haitians did not receive voting cards; around 4% of polling stations were trashed; and the Organisation of American States (OAS) withdrew its observers in mid-afternoon, leaving the count unsupervised. The official result declared a run-off between Mr Preval's unpopular candidate, Jude Celestin, and Mirlande Manigat, a constitutional lawyer, excluding Michel Martelly, a popular musician. That ignited several days of sometimes violent anti-government protests.

The OAS is overseeing a thorough recount of the tally sheets. The run-off scheduled for January 16th has been postponed until at least February. The recount is a practical necessity but has no basis in electoral law. Perhaps the miracle of an effective and legitimate government will yet emerge. But it may be that outsiders' biggest mistake last year was not taking more trouble to ensure that the election went better than reconstruction.

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Protests in Bolivia

Fuel on the fire

Jan 6th 2011 | *LA PAZ* | from PRINT EDITION

Evo Morales is hoist with his own petard

The Bolivian road to socialism

THE rise of Evo Morales to Bolivia's presidency was propelled by his supporters' mass protests against economically rational but politically unpopular measures, which forced two predecessors prematurely from office. Now Mr Morales, a socialist of Andean Indian descent, is in the unaccustomed position of himself being the target of such protests. On December 26th his government announced that it would end subsidies on many fuels, a measure that involved a 73% increase in the price of petrol. Five days later, after bus operators went on strike and many of Mr Morales's own supporters in social movements and trade unions took to the streets in outrage, the government withdrew the measure. For a popular president, it was an unprecedented humiliation.

The logic behind the increase was impeccable. Fuel prices in Bolivia have been frozen since before Mr Morales came to power in 2006, even as the world price of oil has surged. The result has been rising demand, falling oil output and a mounting bill for fuel imports and subsidies. The price freeze cost the government $380m last year, a bill that would rise to $660m this year, according to Alvaro Garcia Linera, the vice-president.

Since petrol prices in neighbouring countries are between two and three times as high as in Bolivia, where a litre costs 53 American cents, a big chunk of that money (some $150m last year) went on fuel that was smuggled out of the country. But Mr Garcia Linera also said prices had to rise to encourage investment. Output of crude oil has fallen by half since oil and natural gas were nationalised by Mr Morales in 2006. Although the government allows private companies to continue to operate parts of the industry, it pays them just $27 per barrel for their output (less than a third of today's world price). Without a price rise, the government faces the embarrassment of having to subsidise oil companies.

But such a big and abrupt increase in the petrol price prompted panic and anger. Supermarket shelves were ransacked, prices shot up amid rumour of shortages and savers queued outside banks to withdraw their deposits. After a couple of days Mr Morales sought to calm the protests by announcing pay rises of up to 20% for public-sector workers and extra help for farmers. But around 70% of Bolivians work in the informal economy. The price rise brought back painful memories of IMF-backed stabilisation plans implemented when Bolivia was bankrupt in the 1980s.

Mr Morales had told Bolivians that the economy was doing well. And so it is, up to a point, helped by debt forgiveness as well as the commodity boom: Bolivia was one of the few countries in Latin America that avoided recession in 2009. The government's strategy has been to extract more of the profit from oil and natural gas through nationalisation, and spread that money around to its supporters in poorer, highland Bolivia through social programmes, subsidised credit and the building of new roads and hospitals.

Until now this seemed to be working. But its opponents have long argued that the nationalisation would merely create a short-term boom while throttling investment. The government, or part of it, now seems to agree. Officials say that they will negotiate with social movements and trade unions on how to raise fuel prices. Perhaps they should have tried that first.

Science in Brazil

Go south, young scientist

Jan 6th 2011 | *SÃƒO PAULO* | from PRINT EDITION

An emerging power in research

POPULAR with foreigners looking for sun, sea and samba, Brazil wants to turn itself into a hot destination for seekers of science. Though its own bright graduates still head to Europe or the United States for PhDs or post-doctoral fellowships, nowadays that is more because science is an international affair than because they cannot study at home. The country wants more of them to return afterwards, and for the traffic to become two-way.

Brazil is no longer a scientific also-ran. It produces half a million graduates and 10,000 PhDs a year, ten times more than two decades ago. Between 2002 and 2008 its share of the world's scientific papers rose from 1.7% to 2.7%. It is a world leader in research on tropical medicine, bioenergy and plant biology. It spends 1% of its fast-growing GDP on research, half the rich-world share but almost double the average in the rest of Latin America. Its scientists are increasingly collaborating with those abroad: 30% of scientific papers by Brazilians now have a foreign co-author.

Becoming part of the global scientific endeavour is about more than national pride. By doing their own science, developing tropical countries can make sure that it is not only the problems of people in rich, temperate places that get solved.

Sao Paulo, Brazil's richest state, is leading the effort. It has the country's best universities, including the only two that make it into the top 300 in both of the best-known global rankings. Its constitution guarantees the state research foundation, known as FAPESP, 1% of the state government's tax take. That amounted to $450m in 2010, and comes on top of money from the federal government.

This allows Sao Paulo to offer the money and facilities to attract foreign researchers. That will remain essential for a while. Brazil is short of established scientists, a legacy of the dire condition of its schools, even if these are now improving. "We have money, and plenty of ideas," says Glaucia Mendes Souza, an expert on sugar-cane genomics at the University of Sao Paulo who co-ordinates FAPESP's bioenergy research. "We need more research groups, and more people to lead them."

Fortunately, this is a good moment to lure foreign scientists. Research funding is being squeezed in Europe and North America. Although Brazil's super-strong currency may bring fears of deindustrialisation, it also makes all kinds of imports cheaper. But snaring academic superstars will be hard. Though Brazil pays junior researchers well by international standards, the same is not true at the top of the scale. Publicly funded universities have no flexibility to offer more money to seal a deal. Nor can they offer research-only contracts: all tenured academics must teach undergraduates. Permanent positions can be filled only by open competition: heads of department cannot simply identify the best candidate and start negotiating. And those competitions include a public examination-in Portuguese.

Still, FAPESP is trying. It has advertised two-year fellowships at some Sao Paulo universities in *Nature*, a scientific journal read globally, and though most responses came from scientists early in their careers, it is mostly the more senior ones who are being invited for discussions. FAPESP hopes that during those two years they will learn Portuguese (lessons are included) and that some will want to stay.

Perhaps the main thing Brazil can offer scientists is plenty of room to grow. "You can have your own laboratory here," says Anete Pereira de Souza, a plant geneticist at the University of Campinas, another big Sao Paulo state university. "You can start an entire new area of research. Here, you're a pioneer."

Food in Mexico

Centéotl's pricier feast

Jan 6th 2011 | *MEXICO CITY* | from PRINT EDITION

The tortilla-makers cry wolf

GALLONS of blood were spilled by the Aztecs to appease Centeotl, the god of maize. Now someone must have upset him: rising maize prices could force the price of tortillas up by 50%, the makers of the corn pancakes warned last month. That matters: maize remains central to Mexicans' diet and culture. Each of them gets through 90 kilos of tortillas a year, in tacos, enchiladas or on their own. The price of tortillas worries economists as well, since they make up 1.2% of the consumer-price index.

After drought in 2009, Mexico produced a record maize crop of nearly 25m tonnes last year. Even so, the country relies on imports. The world price for maize is at its highest since mid-2008. Rises in the price of natural gas and electricity have also pushed up costs for tortilla manufacturers. Specialist *tortillerias*, which dominate the market, raised their prices last year by only 2.6% (less than inflation), to 9.98 pesos ($0.81) per kilo. But supermarkets, which sell a cheaper version (an inferior one, say some), jacked up their tortillas by 8.8%, to 7.15 pesos, after a rise of 16% in 2009.

Any threat to the affordability of the tortilla worries the government, which four years ago faced street protests after a spike in prices. *"Sin maiz, no hay pais"* ("without corn, there is no country") is a popular slogan. On December 22nd the economy ministry announced that it had bought maize futures, which it said should guarantee price and supply until the third quarter of 2011. It also increased a modest subsidy for corn millers.

All this prompted the National Union of Millers and Tortilla Makers, which set off the latest panic, to backtrack. Jimena ZuÃ±iga, an economist at Barclays Capital, notes that the same organisation predicted a 40% increase in prices in 2008, which did not come to pass. Others say that its claimed 60,000 members may be closer to 1,000. Still, it might be best not to mess with a union that has an angry-looking Centeotl as its logo.

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Politics in Argentina

Down among the underclass

Jan 6th 2011 | *BUENOS AIRES* | from PRINT EDITION

A prelude to a dirty campaign

SINCE the sudden death ten weeks ago of her husband and predecessor, Nestor Kirchner, Argentina's president, Cristina Fernandez, has been the beneficiary of a wave of public sympathy that her supporters hope will take her to a second term in an election due in October. But events are no respecters of private grief. And problems that arose last month suggest that not everything will go the president's way.

In early December several thousand squatters, many of them immigrants from Bolivia and Paraguay, occupied a park in Villa Soldati, a poor district of Buenos Aires, demanding housing. Two squatters were killed when the police tried to evict them. One more died in clashes with angry residents before they were persuaded to leave by offers of aid.

Mauricio Macri, the capital's opposition mayor, blamed Ms Fernandez for the debacle. The president responded by creating a new security ministry. The minister, Nilda Garre, sacked the commanders of the federal police, restricted the use of firearms by the force and deployed 6,000 military police. Crime is rising, and fear of it even more. Many Argentines dislike the government's tolerance of disruptive or violent street protests, which are often organised by groups that support it.

The unrest at Villa Soldati was also a reminder that despite years of rapid economic growth under the Kirchners, Argentina has a large underclass. High inflation, though masked by doctored official statistics, has eroded the incomes of the poor, who comprise up to a third of the population. Inflation also explains the scarcity of mortgages, now widespread elsewhere in Latin America. Rents rose by three-fifths between 2007 and 2009. *Villas* (shantytowns) have expanded by at least 50% in a decade. Many have become havens for drug traffickers and other criminals.

Mr Kirchner kept a grip on the underclass through patronage and threats. Pundits speculated that after his death Ms Fernandez would adopt a more conciliatory approach. There have been some signs of that. But she has also surrounded herself with diehard allies who tirelessly propagate conspiracy theories, accusing opponents such as Mr Macri and Eduardo Duhalde, a former president, of subverting the government. When Argentines return in March from their summer holidays, the election campaign will begin in earnest. It looks as if it will be dirty.

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Pakistan's increasing radicalisation

Staring into the abyss

Jan 6th 2011 | *ISLAMABAD* | from PRINT EDITION

Salman Taseer's murder deals a huge blow to liberal Pakistan

THERE is a small space in which a liberal vision of Pakistan hangs on. It shrank a lot further with the murder on January 4th of a notable progressive politician and critic of religious extremism, Salman Taseer. Even before the assassination, the leading liberal-minded political party, the Pakistan People's Party (PPP), which heads the government in Islamabad and counted Mr Taseer as an activist since the 1970s, was in deep trouble. On January 2nd the PPP lost its majority in parliament when the second-biggest party in the government coalition, the Muttahida Qaumi Movement (MQM), walked out.

The PPP has been rocked by Mr Taseer's murder, which brings back memories of the ghastly assassination by extremists of the party's leader, Benazir Bhutto, in 2007. Pakistan's problems, including an economy in a tailspin and a raging Islamist insurgency, are unlikely to get the attention they need while the government struggles for survival.

Mr Taseer was the governor of Punjab, a largely ceremonial position in Pakistan's most populous province, but a high-profile one for all that. He had run a lonely but fearless campaign against Pakistan's pernicious blasphemy law and was gunned down in broad daylight in Islamabad by one of his own police guards. The smirking killer later said he acted because Mr Taseer's call for the blasphemy law to be repealed made Mr Taseer himself a "blasphemer". Mr Taseer had taken up the case of a poor Christian woman, Asia Bibi, whom a court last year condemned to death for blasphemy. Mr Taseer himself was always sure that extremists did not represent the majority opinion in Pakistan, but that their recourse to violence means that they control public discourse.

"Pakistan lives under great intimidation, so it doesn't matter whether extremism is a majority opinion or minority," says Khaled Ahmed, an analyst. "Moderates will never get up and speak when we're treated like this." In 2009 a leading religious cleric who condemned suicide bombings was himself murdered by a suicide attacker. The same year the minister for religious affairs, also a moderate, was wounded in an assassination attempt. Other temperate voices have fled the country. The PPP dared not back Mr Taseer's call for the blasphemy law to be overturned, nor even to back the law's reform.

The law, first introduced in colonial times but in the 1980s made punishable by death by the late dictator General Zia ul Haq, is wide open to abuse, with hearsay used to convict dozens of people each year. Accusers routinely fabricate stories of blasphemy to punish enemies for other grievances. The law is vague and applies only to insults to Islam. Minorities and Muslims alike are caught up in its tentacles. The alleged blasphemy may neither be stated in the charges nor repeated in court, since that would in itself be an act of blasphemy.

Mr Taseer's killer, Mumtaz Qadri, may have acted alone-an investigation may get to the root of it. Yet his cause has support in Pakistan. Lawyers outside the court showered him with rose petals. The murder follows a campaign of vilification by the clergy and sections of the press. A broad alliance of the clergy rushed out a statement lionising the assassin. "No Muslim should attend the funeral or even try to pray for Salman Taseer," said Jamaate Ahle Sunnat Pakistan, which represents the large and moderate Barelvi sect of Islam.

Religious parties do not attract much support at election time-they polled less than 5% of votes in the last ballot, in 2008. However, Ijaz Gilani, head of Gallup Pakistan, argues that it would be a "very serious miscalculation" to judge society's religiosity by the showing of Islamist parties at election time. Pakistan has a first-past-the-post system, so people vote for

one of the mainstream parties that have the best chance of coming to power. It means that both the PPP and, especially, the other main party, the Pakistan Muslim League (N), led by Nawaz Sharif, have a bank of religious-minded voters whom they must be careful not to offend.

Pakistan's public culture is riddled with hardline views, from the school curriculum to the nightly political talk shows. Meanwhile, as Mr Taseer himself never failed to point out, the state gives succour to violent, extremist organisations. No serious attempt is made to rein in the interpretation of Islam promoted by the military establishment since the 1980s, which puts *jihad* at the core. Repeated calls for the Punjab governor to be killed were made from mosque pulpits across Pakistan, yet such hate speech goes unpunished.

Now the PPP is desperately seeking an alternative coalition partner. In part, the MQM walked out in opposition to a planned hike in the oil price. Reforms promised under an IMF programme are now jeopardised.

The risk is that the divided opposition will get together to oust the government and force fresh elections. The opposition leader, Mr Sharif, holds the cards: any no-confidence motion in parliament would need his backing to succeed. Mr Sharif himself seems unsure whether to go for power. He fears this would play into the hands of the army, which historically has worked to undermine both politicians and democracy itself. So the government could limp on for months, with two years of its five-year term still to go.

As for the army, it appears unwilling to seize power itself, as it has repeatedly done in the past. With Pakistan's myriad economic and political problems, and the urgent need to focus military resources on the Islamist insurgency, the prospect of power looks unappealing. The present situation suits the military. It controls security and foreign policy, its budget is protected and American military aid is flowing, whereas the government is blamed for all the country's ills. It would be foolish to rule out a coup, but just now the generals seem hesitant to take responsibility for a place that has embraced Mr Taseer's assassination with such relish.

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Kazakhstan's benevolent father

Long live the khan

Jan 6th 2011 | *ALMATY* | from PRINT EDITION

Nursultan Nazarbayev, very nearly eternal

Leader of the nation, ad infinitum?

THE workings of Kazakhstan's political machine are regrettably now rather familiar. An obscure group of concerned citizens gathers in a distant corner of the country and there, for the good of the nation, makes a ground-breaking proposal. Ever receptive to the people's will, the authorities in the capital rush to make this new idea their own and forward it to the president. The wise and caring leader must then decide whether to stick to the letter of the constitution or bend it to do the good people's bidding.

Kazakhstan's peculiar style of democracy was on display in the last week of a year in which its chairmanship of the Organisation for Security and Co-operation in Europe (OSCE) was supposed to show the world that the oil-rich country could live up to international standards of democracy and human rights. In the end it reverted with lightning speed to its old form. On December 23rd a forum of 900 people in the eastern city of Ust-Kamenogorsk put forward an initiative to extend, via a referendum, the president's term in office until 2020 and to cancel the next presidential election, due in 2012. Four days later the Central Election Commission registered the appeal. On December 29th it was backed by Kazakhstan's one-party parliament and is now before President Nursultan Nazarbayev himself. In power since 1989, the 70-year-old vies with his Uzbek counterpart, Islam Karimov, as longest-serving leader in states that once made up the Soviet Union. Meanwhile, by December 31st, 300,000 signatures had already been gathered, 100,000 more than are required to call for a referendum. In lively discussions on the internet, unidentified officials, teachers, and students complained of pressure to sign the petition.

Whether Mr Nazarbayev will go ahead and treat himself to a full three decades in power remains to be seen. Last June he was named "leader of the nation", with far-reaching rights beyond his term in office. He had originally publicly rejected such a proposal. Parliament passed the bill, which became law even without his signature. It might be the same this time around.

Kazakhstan's opposition, such as it is, denounced the initiative. Gazis Aldamzharov, head of the Communist Party, questioned whether, among 16.4m Kazakhstanis, it was really impossible to find a worthy alternative to Mr Nazarbayev. But like him or not, Mr Nazarbayev is seen by many, including foreign investors, as providing stability. This is highly cherished in Central Asia's volatile neighbourhood, where last year's bloody overthrow of Kyrgyzstan's president, soon followed by ethnic violence and the introduction of a parliamentary republic, were seen as disasters. Although Mr Nazarbayev runs the country with an iron hand, he is not an outright dictator. Less of a control freak than Mr Karimov, he is a pragmatist who is credited with creating prosperity.

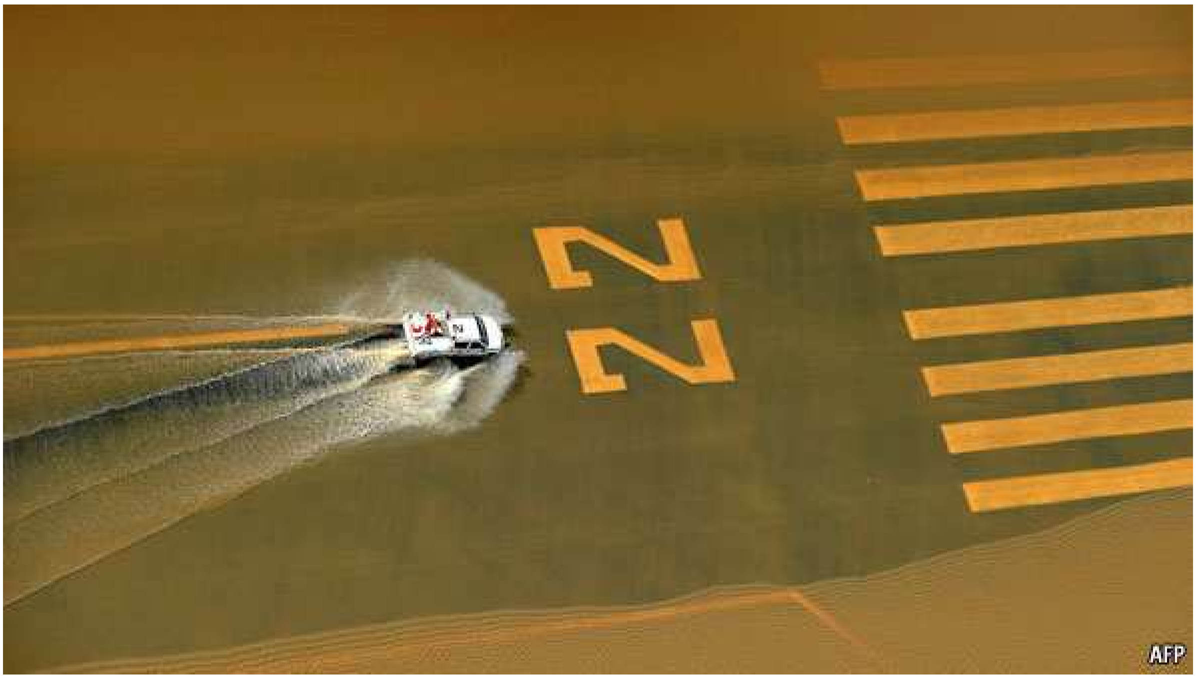
Yet the president has conspicuously failed to groom a successor. So observers believe that his departure, whenever it comes, will usher in a period of instability which might, at worst, rival the turmoil in Kyrgyzstan. Although the formal rules of succession are clear, fierce political fights are likely, and attempts by powerful interest groups to redistribute the country's economic spoils. Mr Nazarbayev's loyal supporters fear losing not only their influence but also everything they have built for themselves since independence. Much better, then, for everyone, including the president and his family, if Mr Nazarbayev stays on for as long as possible. Wicked tongues say that the remarkable organisational skills displayed by those involved in the signature initiative have the fingerprints of the presidential administration all over them.

Australian politics

Julia Gillard's rising waters

Jan 6th 2011 | *SYDNEY* | from PRINT EDITION

Floods are the least of the prime minister's problems



Wouldn't Julia love to aquaplane?

AUSTRALIA'S prime minister marked the new year by visiting Queensland, a state ravaged by floods. But Julia Gillard had more on her mind than the billions of dollars in damage to mines, farms and cities in the boom state. Seven months after she unseated Kevin Rudd as leader of the ruling Labor Party, Ms Gillard starts 2011 struggling to establish her own leadership.

August's federal election left Ms Gillard dependent on support from Greens and independents to lead Australia's first minority government in 70 years. The latest opinion polls show support continuing to slide. Only 34% say they would give Labor their first vote. Ms Gillard justified her overthrow of Mr Rudd by claiming the government had lost its way. Australians seem yet to be convinced that she can find it again.

Her problems stem partly from having to juggle her own agenda against that of the parliamentary allies on whom her survival depends. In October Andrew Wilkie, an independent from Tasmania and a former whistleblower on Iraq, steered through a bill to strengthen laws protecting journalists and whistleblowers. In November Adam Bandt, of the Australian Greens, secured a motion calling on members to seek constituents' views on gay marriage, a prelude to a Greens bill now before the Senate to legalise such unions. Here Ms Gillard has looked more a follower than a leader. Although she supports Labor's policy against gay marriage, she has now promised to bring forward the party's national conference from 2012 to next December so the issue can be debated.

Other problems are more of her own making. Ms Gillard has yet to define herself or her vision. On her first overseas trip as prime minister she let slip that she would rather be at an Australian school, watching children learn to read. "Foreign policy", she added, "is not my passion." As a former education minister that might have passed. But as prime minister?

On asylum-seekers, Ms Gillard has tried to match the toughness of the right-wing opposition while placating her leftist Green allies. She risks being stranded in a political no-man's land. Identity crisis may be a feature of a report this month by party grandees on how Labor can reinvent itself as a party of reform.

With many promises but little to show for them, Ms Gillard meanwhile has pledged that 2011 will be "a year of delivery and decision". The priorities for "delivery", she says, will be the government's A$36 billion ($36 billion) plans for a national broadband system, and taking over from the states most of the funding for public hospitals. Both policies face political hurdles.

The agenda also includes plans for pricing carbon emissions and restoring Australia's biggest river system, the Murray-Darling basin. Some of these are left-over or revived policies from the Rudd era. The stakes will rise in July, when the new Senate from the last election starts work. In it, the Greens will have the balance of power, giving them a make-or-break hold over Ms Gillard's programme. To retain their influence, though, they will have to do some compromising of their own, especially on climate policy. But Mr Bandt says it brings "an opportunity to advance our agenda".

Yet all is far from lost for Ms Gillard. Despite feeble polls, her rating as preferred prime minister has widened over that of Tony Abbott, the opposition leader known more for legislation he would tear up than introduce. With 51 bills passed since the election, for the time being her government has avoided parliamentary gridlock. The next election is due in 2013. Mr Bandt credits Ms Gillard with the "skills to negotiate and hold it together". By his reckoning, the odds of her government lasting the course are good.

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Land grabs and a disputed death in China

Goons and the common man

Jan 6th 2011 | *BEIJING* | from PRINT EDITION

What a possible accident says about the government's credibility

GRISLY photographic displays of traffic accidents are common in China. The authorities use them to shock the public out of widely shared indifference towards the rules of the road. They have no observable impact. Recently, however, pictures circulated online of a man crushed by a truck have created a furore, and caused the government itself alarm.

The photographs show the body of Qian Yunhui, a former village chief near the coastal city of Wenzhou, under the wheel of a truck, his head apparently severed. On January 4th the police charged the driver with accidental death. The Chinese internet, however, has been awash with rumours that this was no accident: that Mr Qian was actually held down by government-hired goons to allow the truck to drive over him. It is an all too plausible story in a country where local officials, especially in the countryside, often recruit thugs to intimidate people who make their life awkward. The murder story gained credibility when even some state-owned media reported eyewitnesses as saying they saw it happen.

A local police investigation claimed no evidence of foul play, but internet users were quick to scorn that. After all, local officials appeared to have a motive for killing Mr Qian. For years he had organised fellow villagers in protests against the government's failure to compensate them for appropriated land. Three times he had been arrested and once imprisoned.

Hundreds of mourners who gathered on New Year's Day were not convinced either. Some threw stones at riot police. Suspicion of a cover-up only grew after two people claiming to have seen a murder changed their story. The local government has posted notices threatening severe punishment for spreading false rumours. This is a tactic often used to silence dissent. One Chinese magazine spoke of "terror shrouding the village".

For all that, several widely respected Chinese lawyers, academics and journalists went to investigate for themselves, and their separate findings have so far revealed nothing that gives strong credence to the murder theory. Still, Han Han, one of China's most popular bloggers, wrote on January 3rd that the government ought to consider why so many people do not believe its story. Mr Qian, he said, could "go on his way in peace", because his death had exposed the unfairness of the villagers' lives as well as the fragile nature of the government's credibility.

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India's energy diplomacy

Tipping the scales

Jan 6th 2011 | *DELHI* | from PRINT EDITION

A technical change in how India pays for Iranian oil, and a diplomatic shift

WESTERNERS watching keenly for how India will align itself in international affairs found reason to cheer at the start of the year. On the eve of India's return, after 19 years, to the United Nations Security Council on January 1st, its central bank quietly announced that payments for Iranian oil imports could no longer be made through an Asian currency-clearing union. The move, which followed lobbying from America and Europe, lifts a veil on India's payments for Iranian oil.

Though it is largely symbolic, its significance has not been lost on Iran. Increasingly isolated, that country is a big supplier of oil to India, accounting for 13% of imports. The government in Tehran is scrambling for other channels for the funds-the 400,000 barrels India imports daily are worth $12 billion a year. But India appears to be falling in with American, European and Japanese efforts to discourage financial dealings with Iran.

The trade in oil will not stop-January's supplies are guaranteed-but it may decline. More and more, though, Indian oil firms are being urged to look farther afield for oil, notably to Saudi Arabia and west Africa (India is lobbying hard for new supplies from Angola). The central bank's decision may also encourage Western diplomats to hope that India, which seeks a permanent seat on the Security Council, could be persuaded to support a future round of UN sanctions against Iran.

India and Iran still share common interests. They have long opposed the Taliban in Afghanistan and (to some degree in Iran's case) opposed the Taliban's backers in Pakistan. Indian investors hope that Iran will one day host a pipeline for gas imports from Central Asia. And Indian diplomats steeped in their country's history as a leader of the non-aligned movement recoil at the idea of falling in behind American leadership.

But India is forming increasingly friendly ties with America. And it strongly dislikes the idea of another nuclear-tipped power appearing in its troubled neighbourhood. Three times in 2005-09 Indian diplomats backed resolutions at the International Atomic Energy Agency criticising Iran over secret programmes to enrich uranium which many outsiders say is intended for weapons use. None of this guarantees a tougher Indian position on Iran: even the central bank apparently did not inform the foreign ministry of its December decision. Yet the obscurest little changes can sometimes prove to be the most telling.

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Vietnam's troubled economy

Steady as she staggers

Jan 6th 2011 | *HANOI* | from PRINT EDITION

Rulers pass up the chance to deal with mounting economic problems

Shrimps and rice are very nice: but not as main exports

ALL too frequently Vietnam's capital is plagued by power blackouts. Hotel lifts get stuck, and even the espresso machines in Hanoi's Parisian-style cafes splutter to a halt. Many thought this fast-developing country had left such symptoms behind. Yet the economy is now straining, and often failing, to keep up with the ambitious growth targets set by Vietnam's Communist bosses. Inflation is rising; the budget is in deficit; the currency is falling; and people are rushing to turn their savings into dollars or gold.

Decisive action is called for, but is unlikely to come from the Communist Party's showcase congress, its 11th, later this month. As well as a misfiring economy, the list of problems includes official corruption, unpopular land grabs, environmental damage and, as ever, a lack of political transparency. Little change in policy is expected, nor even in personnel, apart from a polite game of musical chairs at the very top. Earlier hopes that a cohort of reform-minded apparatchiks might replace an older, more staid generation have now been disappointed.

Even the prime minister, Nguyen Tan Dung, may stay in office, after speculation that he would take the rap for the biggest mishap, the collapse of Vinashin, the giant state-owned shipbuilder. Last year the sprawling empire imploded with debts of $4.5 billion. In December Vinashin defaulted on a loan to international creditors and it has been forced to go cap in hand to the government to pay its wage bill.

To critics of Vietnam's policies, the collapse of Vinashin was a vivid illustration of the perils of relying on state-owned enterprises (SOEs) to provide the impetus for economic growth and modernisation. Yet according to congress documents which have already been agreed upon, the SOEs will continue to play the economy's "leading role", as they always have done. One expert on Vietnam, David Koh of the Institute of South-East Asian Studies in Singapore, says that, away from the party congress, the government has been taking some action. It recently issued directives that put new restrictions on how SOEs are allowed to operate, particularly in terms of how much they may diversify away from their core businesses. But commerce in Vietnam is highly bureaucratic. It will take the state enterprises a long time to respond to these directives, if indeed they ever do. Meanwhile, who is to say that the enterprises are in the right business to start with?

Such conservatism will make investors fret. The problems of the SOEs explain much of Vietnam's weakening macroeconomic outlook. If the government does not take the SOEs by the scruff of the neck, it will be able to do little else. The SOEs need to be set free, but for that the Communists would have to give up political control of the economy. That is out of the question. So these corrupt and inefficient behemoths continue to gobble up and then squander a good share of the foreign investment and export earnings that come into the country. Meanwhile, the government is blowing its budget. The fiscal deficit rose to 7.4% of GDP last year, breaching the target of 6.2%.

The country now also runs big trade and current-account deficits, as it relies too heavily on exporting low-value stuff like processed seafood and rice. These deficits, added to inflation, which rose to 11.8% last year, have put the currency under pressure. Three times in the past 14 months the government has been forced to devalue, hence the rush among Vietnamese to hoard dollars and gold as they lose faith in the dong. The government has pledged to improve all these gloomy figures. Yet chasing growth rates of 7% a year or more without commensurate structural change will only generate more of them.

Banyan

The indispensable incarnation

Jan 6th 2011 | from PRINT EDITION

Talk of the Dalai Lama's "retirement" shows how much Tibet still needs him. Yet so does China

ENTHRONED in a maroon and saffron pavilion, the 14th Dalai Lama chuckled often as he preached to the football stadium, though his text was not taken from the jolly slogan behind him: "Play soccer for world peace". Ringed by snowcapped Himalayan peaks in Gangtok, capital of the Indian state of Sikkim, which borders Tibet, tens of thousands basked in midwinter sunshine-local Sikkimese of Nepali and ethnic-Tibetan descent, visitors and, of course, Tibetan exiles. The Dalai Lama may exaggerate a bit when he says that 99% of Tibetans trust him. But not by much. So his recent talk of "retirement" has unnerved many.

In November he said he was seriously thinking of retiring. An election in 2001 for his government-in-exile had already ended the 400-year tradition of Dalai Lamas as both spiritual and political leaders. After an election in March this year, he would discuss with the new parliament when to give up his remaining "temporal" role. He expected to retire in the "next few months".

The Dalai Lama has long stressed his work not as a political leader but as a scholar and guardian of the Buddhist tradition he embodies. In Gangtok he attended a seminar on spirituality and science. His lecture on the soccer pitch was on a rather abstruse commentary by a second- or third-century Indian philosopher, Nagarjuna ("The form particle does not produce sense-consciousness because it transcends the senses."). The Dalai Lama turned it into an accessible sermon on how to live your life.

Politics, however, will not let Tibet's spiritual leader go. His presence in Sikkim was in itself a measured gesture of Indian defiance towards China. India annexed the former kingdom in 1975. China long refused to recognise Sikkim's incorporation into India, though since 2004 Chinese maps have shown it as an Indian state, and in 2006 a modest border trade began. The Dalai Lama's eight-day tour of Sikkim was pointedly timed to come just after Wen Jiabao, China's prime minister, had been in Delhi, discussing how to improve ties. Tibet remains one of the strains. The Dalai Lama, with some 100,000 followers, has made his home in India since fleeing Lhasa, Tibet's capital, in 1959.

Those exiles, and another 6m Tibetans under Chinese rule, make it impossible for the Dalai Lama to quit politics altogether. He remains the only Tibetan they can trust to marshal the international sympathy that keeps their cause alive.

Yet China's refusal to talk seriously to his representatives about the future of Tibet seems perverse. For over 20 years he has demanded not the independence many Tibetans crave, but greater autonomy. Probably he alone could make many Tibetans accept this. Moreover, he is a pacifist. China wrongly blamed him for the ferocious ethnic attacks on Han Chinese in riots in Lhasa, in 2008. Without his restraining influence, violence would have been far more frequent.

For China, however, the solution to its Tibetan problem is the end of the 14th Dalai Lama. It may be right that when he retires or dies-and though in rude health, he will turn 76 this year-the Tibetan cause will suffer a terminal blow. The Dalai Lama's reincarnation (if any, for the 14th says this is an open question) may well be contested, like that of another senior lama, the Panchen. The tenth Panchen died in 1989. Two children were identified as the 11th, one recognised by the Dalai Lama and most Tibetans, the other by China. The "Tibetan" Panchen vanished from view.

Even an undisputed Dalai Lama would for decades be too young for a political role. In the interim, many Tibetans expect much of another incarnate Buddha, the Karmapa Lama. In this case there is a 17th incarnation, Ogyen Trinley Dorje, who is recognised by both the Dalai Lama and the Chinese government. The school of Tibetan Buddhism he heads has just been celebrating its 900th anniversary in India at Bodh Gaya, site of the bodhi tree under which the Buddha attained enlightenment. So the Karmapas' lineage is even longer than the Dalai Lamas'. Ogyen Trinley, just 25, is an impressive and engaging figure, who has inherited a big foreign following.

He has two problems, however. Yet again, the incarnation is contested, with a rival candidate, also in India, and some fishiness about the identification of the infant Ogyen Trinley. Second, India is suspicious of him. Born in Tibet itself and feted in his youth by the Chinese authorities, he made a dramatic flight to India 11 years ago. Some fear China connived in his escape, hoping to sow discord among exiled Tibetans. That has been the effect, if not the intention. The Karmapas' seat-in-exile, at Rumtek near Gangtok, has seen fisticuffs between supporters of the rival claimants. And the Indian government's refusal to allow Ogyen Trinley to enter Sikkim has become a political issue: the state is littered with posters demanding he be allowed in.

In a ceremony for the winter solstice at the mountaintop monastery of Rumtek itself, drums throb, horns and conches low mournfully, and monks led by a cleric in elaborate robes and a huge black hat consign an offering to the bonfire. But they are not many, and on hand to watch are only a few tourists and the armed Indian soldiers who patrol the place. The Karmapas' home in exile is in a depression.

A job for life

China may calculate that, after the Dalai Lama, the Tibetan exile movement will lose itself in infighting. But that is all the more reason to deal with him. China's control of Tibet is not in doubt. What it lacks is the acquiescence of Tibetans. The Dalai Lama offers the best chance of reconciliation. Three weeks after his "retirement" remarks, the simple monk clarified his position. He had only, he said, been referring to some ceremonial functions-signing documents and so on. Like every Tibetan, he has a responsibility he may not shirk. Talk of his standing down, he said, had caused "anxiety" and "confusion", including inside Tibet.

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South Sudan

Independence beckons

Jan 6th 2011 | *JUBA* | from PRINT EDITION

A referendum on secession for South Sudan seems very likely to happen, and the people seem certain to say yes

ONLY weeks ago, international observers and local politicians were outdoing each other with predictions of the horrors to befall South Sudan around the time of its independence referendum. There was talk of mass rape, armed incursions from the north, even a resumption of full-scale civil war. Some reckoned the vote on January 9th would not take place at all.

Such fears were not outlandish. Sudan has gone through decades of conflict between Muslim northerners and Christian and animist southerners. Some 2m people had been killed before the two sides, six years ago, signed a peace accord which included a provision to give the southerners an eventual vote for independence. Northern leaders have made half-hearted attempts to derail or delay the creation of a new state. Sudan's defence minister, among others, darkly warned against the dire consequences of secession.

But previously restive border provinces have remained quiet, at least by local standards. Two villagers were killed and four injured in an attack four days before Christmas by the Lord's Resistance Army, a vicious Ugandan rebel movement that haunts the south-western borderlands and was at one time supported by the north to weaken the south. Incidents of violence have persisted here and there but have been isolated and contained.

Foreign diplomats and southern Sudanese leaders are scratching their heads in wonder at getting to a point where the referendum seems pretty sure to take place on time and with relatively few immediate worries. It is the best outcome they could have hoped for. Being so close to fulfilling their national dream, many southerners would be deeply disappointed-and their leaders hard-pressed to rein in armed supporters-should there be a severe last-minute hiccup.

American pressure has helped to ease the way. Early in his presidency, Barack Obama paid much less attention to Sudan than his predecessor did, but that changed in the middle of last year, when he tripled the number of American officials in Juba, South Sudan's capital, and sent a flurry of envoys to Khartoum, the hitherto undivided country's capital, to press President Omar al-Bashir to let the south go. The Americans offered to normalise relations with Mr Bashir's government provided he behaved decently towards the south (and in the western region of Darfur). If he at last proves co-operative, the Americans may remove Sudan from their list of state sponsors of terrorism, exchange ambassadors, lift the punitive sanctions they imposed several years ago, and forgive part of the country's $40 billion of debt.

Crucially, the Americans, who helped broker the peace deal between north and south in 2005, also went along with bending some of the referendum rules. To meet tight deadlines, not all 3.5m registered voters have been properly identified. A waiting period between registration and voting was shortened from 90 days to 30. And ballot papers were simplified so that the illiterate-some 85% of southerners-could vote more easily; a picture of two clasped hands stands for unity with the north, a single raised hand means independence.

Observers from the European Union and from the Atlanta-based Carter Center say they are happy with the preparations. Except for two incidents in Akobo and Kiir Adem (see map), registration went smoothly; 3,000 voting centres have been set up across the south, in northern districts with large clusters of ethnic southerners, and in foreign countries with a big diaspora of Sudanese southerners.

The official result is not expected for several weeks, yet the outcome is in no doubt. The number of people intending to vote for unity with the north is tiny. Your correspondent failed to find a single one.

Mr Bashir this week acknowledged, at least indirectly, the complete lack of southern support for the government in Khartoum. He may even have accepted the likelihood of separation. On a visit to Juba on January 4th, he declared, as his southern counterpart stood beside him, "If the vote is for secession, we will support you and congratulate you."

The thuggish yet canny Mr Bashir has lost most of his means of manipulation. For years he sent weapons to southerners hostile to the Sudan People's Liberation Movement, the dominant southern group, to destabilise the region. But many of these rebels recently reconciled themselves to the southern leadership in return for money and promises of amnesty.

At the same time, the south's army, a collection of hardened bush fighters with an increasingly sophisticated arsenal, tightened its grip on the north-south border by deploying additional units three months ago. They disrupted the transfer of arms to the biggest renegade, George Athor. A helicopter carrying his chief of operations was captured at a refuelling stop with help from Americans. Mr Athor subsequently agreed to a ceasefire.

The biggest worry for the south and its backers abroad is turnout. At least 60% of eligible voters must cast ballots for the referendum result to be valid. "The horror of horrors would be getting a 59% turnout figure," says a Western diplomat. Having come this close to independence, most southerners would see any majority as justification for secession. But their leaders have promised to abide strictly by the rules, to deprive the north of any grounds to refuse independence.

Hoping to ensure a high turnout, southern leaders have organised a publicity campaign unlike anything this poor and remote part of Africa has seen. Stickers, posters and T-shirts favouring secession fill Juba's streets, most of them still made of mud. "The final walk to freedom," reads one. A giant clock counts down the minutes to self-rule.

In remote villages picture posters beckon the illiterate to polling stations. The church, the best-run and most respected institution in the south, has swung behind the campaign. In between sermons and gospel songs during services, priests urge believers to vote. "It is your duty," Juba's Catholic bishop told his congregation.

The government sounds increasingly confident as the referendum draws near. But a smooth transition is another matter. Before declaring independence, scheduled for July 9th, north and south must finalise a separation agreement. A formula must be found for sharing the oil revenue from jointly operated fields. A method must be devised for joint control of disputed areas such as oil-rich Abyei, which lies on the border between north and south and which is not having its own referendum, as mandated in the 2005 peace accord.

Negotiating a final deal is a job for the sort of tough guy that George Clooney, an actor-cum-campaigner, likes to play in his films: sly, ruthlessly pragmatic but with a big heart. Mr Clooney is currently making one of his regular forays up the

Nile in the service of Sudanese peace and brotherly love. In a recent newspaper article he urged South Sudan to accept a divorce deal "of the kind that can leave a bad taste in your mouth but that gets the job done".

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Cote d'Ivoire and Liberia

Fear of contagion

Jan 6th 2011 | *TOE TOWN, LIBERIA* | from PRINT EDITION

Trouble is brewing on the two countries' porous border

FREE-ROAMING rebels in west Africa have a habit of poking their noses into each others' wars-and stoking them up. As tension rises in Cote d'Ivoire, where Laurent Gbagbo is still refusing to step down after losing his bid for re-election at the end of November, a two-way traffic, involving gunmen going in and refugees coming out, is buzzing on the western border with Liberia. Fears are rising that Ivorian strife could spread in the same way that trouble in Sierra Leone and Liberia oozed across borders in the 1990s.

In Toe Town, a dusty one-street border spot in eastern Liberia, lorries are parked up, while female hangers-on loll listlessly in the heat. Every night scores of young men sneak into Cote d'Ivoire. Further north, in Liberia's Nimba County, thousands of frightened Ivorian civilians are crossing into Liberia, while Liberian gunmen head the other way. Many of the fighters are being recruited through their old networks from the 1990s.

Two main groups are involved. One comprises former members of the Movement for Democracy in Liberia, known as MODEL, a rebel group once based in Cote d'Ivoire and created by Mr Gbagbo. Back in the 1990s, he opposed the forces of Liberia's bloodthirsty president, Charles Taylor, who is now facing trial in The Hague for crimes against humanity committed by his forces during a civil war in next-door Sierra Leone. With a strong presence in and around Toe Town, MODEL's fighters hail from Mr Gbagbo's Krahn tribe.

The second Liberian group that has popped up again, previously known as the National Patriotic Front of Liberia, was once sponsored by Mr Taylor, who backed Cote d'Ivoire's northern rebels in their vain effort to oust Mr Gbagbo during the Ivorian civil war in 2002. Abandoned at the end of that conflict, this group's militia has swapped sides to fight for Mr Gbagbo.

This is worrying for Liberia. A fragile peace has held since its civil war ended in 2003 after 14 brutal years. Disarmament and reintegration continue. But rebel attacks have previously been launched from across borders, sometimes with a wink from neighbouring governments. Ethnic groups straddling borders can spread war on either side. "Fighters have their own unpredictable agendas and retribution in Liberia is a danger," says Pewee Flomoku, an analyst in Monrovia, Liberia's capital.

Liberia has its own elections in October. President Ellen Johnson Sirleaf, Africa's first female head of state, seems likely to be re-elected. But opposition politicians may be tempted to use gunmen returning from Cote d'Ivoire to stir up trouble.

Liberia's government has stepped up security at crossings. But the border with Cote d'Ivoire often runs through jungle and is 716km (445 miles) long. Some 85% of Liberians are said to be out of work; average annual income is around $200. "Many former fighters are jobless and linger around," says Mr Flomoku. "Money and arms are a strong pull."

Meanwhile Mr Gbagbo is proving hard to oust, even though most of the world, including the UN and the African Union (AU), is arrayed against him. A bevy of African leaders has flown in to persuade him to go. The presidents of Benin, Cape Verde and Sierra Leone, among others, aired the idea of using military force, as well as offering him safe passage into exile. Most recently Kenya's prime minister, Raila Odinga, has done his bit, in vain.

Regional outfits, led by the influential 13-country Economic Community of West African States (ECOWAS), have excluded Mr Gbagbo from their membership. He and his circle have been banned from travelling to most Western countries and their assets there frozen. The Central Bank of West African States, serving eight countries formerly in the franc zone, has recognised Alassane Ouattara, Mr Gbagbo's rival for the presidency, as Cote d'Ivoire's new head of state, and is refusing to accept Mr Gbagbo's signature for transactions. ECOWAS has repeatedly threatened force.

But Mr Gbagbo is still backed by the Ivorian army, state television and mobs in Abidjan, the commercial capital in the south, where his support is strongest. An attempt by Mr Ouattara's people to march on the state television building on December 16th left about 20 dead. At least 170 more have been killed since then. The UN's peacekeeping chief in Cote d'Ivoire, whose mandate is only to protect civilians, wants more troops to defend the Abidjan hotel where Mr Ouattara is holed up.

Though international bodies may try to starve Mr Gbagbo of cash, he has a lot of it stashed away. Receipts from cocoa, the economy's mainstay, which is still being exported through the two main Ivorian ports, continue to fill his coffers.

In power since 2000, Mr Gbagbo is a master of calling his opponents' bluff. Regional forces have previously intervened in west Africa to prop up governments under threat, such as those in Liberia and Sierra Leone. However, ousting a government by force is another matter. The AU managed it in 2008 in the puny Comoro Islands. But Cote d'Ivoire, by regional standards, is powerful. An attack on Mr Gbagbo's Abidjan headquarters might risk high casualties. Supporters of the recalcitrant leader, who remains strong in the south, could also inflict ferocious reprisals on civilians, especially northerners, suspected of favouring Mr Ouattara. In short, while fear of regional contagion rises, Mr Gbagbo's rapid removal looks as awkward as ever.

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Israel's party problems

Will the ruling coalition shrink?

Jan 6th 2011 | *JERUSALEM* | from PRINT EDITION

Israel's ruling coalition faces more dissent from within

Look how peace-minded I am

ISRAEL'S prime minister, Binyamin Netanyahu, and its defence minister, Ehud Barak, have been veritably flooding the airwaves with protestations of their zeal for peacemaking, despite the seemingly definitive breakdown of talks with the Palestinians three months ago. The peace process will top his agenda, Mr Netanyahu recently assured his Likud party, having triumphantly pushed through a budget for the next two years. It was not he who balked late last year at putting a stop to the building or expanding of Jewish settlements in the West Bank, Mr Netanyahu told a parliamentary committee on January 3rd. It was, he claimed, the Americans who backed away from insisting on a new freeze.

The prime minister says he is anxious to resume talks, albeit indirectly, with the Palestinians. No hardliners in his ruling coalition would constrain him, he vowed. On January 6th he flew to Egypt to share his ardour for a new bout of peacemaking with President Hosni Mubarak.

Mr Barak, for his part, said peacemaking was the government's "foremost responsibility". Israel's 43-year-old occupation of Palestinian lands was "unparalleled anywhere on earth". He was bent on "a breakthrough and an agreement".

But the two men also have a domestic aim: to persuade Mr Barak's Labour party that they both truly seek a peace deal and that the party must therefore stay in the coalition. The snag is that ever fewer Labour people believe them. Israel's leading liberal newspaper, *Haaretz*, recently reported that senior officials in Washington are increasingly irritated by Mr Barak's incessant special pleading on Mr Netanyahu's behalf. This has bolstered demands for secession among Mr Barak's restive cohorts. "Look in the mirror," the minister for minority affairs, Avishai Braverman, challenged his chief at a Labour caucus. "See what people think of you and of the way you run the party."

Binyamin Ben-Eliezer, the minister of trade, once Mr Barak's strongest backer, is urging Labour to set a deadline. If no substantial progress towards a peace deal is achieved by April, the party should secede, he says. Other Labour ministers want a party conference sooner, to decide on secession and set a date for new leadership elections.

On paper, Mr Netanyahu can rule without Labour. His Likud has 27 seats out of parliament's 120. With what he calls Likud's "natural allies"-the religious parties and the far-right Yisrael Beitenu, backed by secular immigrants from Russia-he can count on 61 seats, ignoring Labour's 13. The ultra-nationalist National Union Party may well swing its four votes behind a Labourless government too.

But without Labour Mr Netanyahu could lose quite a bit of legitimacy, especially in foreign eyes. Labour participation in the coalition is said to give his rightist-religious coalition a veneer of respectability, which is why Mr Netanyahu lavished ministries and deputy ministries on half of Labour's members of parliament.

Now they seem to believe that staying in for more months of peace-process paralysis, with Mr Barak making Mr Netanyahu's excuses, may doom their already shrunken party to terminal demise. So secession could occur in spring and an election near the year's end.

Mr Netanyahu is not reconciled to such a truncation of his term. His people say Mr Barak's defence of him will yet be validated. "Suspend disbelief," urges one of his confidants. "Bibi wants an agreement."

The Gaza Strip

A rumble of war

Jan 6th 2011 | *GAZA* | from PRINT EDITION

Neither side wants war but neither knows quite how to be sure to stop it

THERE is scant logic to the latest upsurge in cross-border fire between Israel and the Palestinians of Gaza. Both have benefited from an undeclared ceasefire since Israel's assault on Gaza in late 2008 and early 2009. Figures from Israel's intelligence service mark down 2010 as the calmest year for a decade. Of 8,000 conflict-related Israeli injuries since 2000, just 28 were in 2010. Launches of rockets from Gaza have dipped from 2,048 in 2008 to 150 last year. With no suicide-bombings for two years, Israeli cafes are nonchalantly dropping security checks at their entrances.

The trend towards normalisation in Gaza has been as pronounced. Hamas, the Islamist movement, is finally able to do what Western powers tried to thwart after it won the Palestinian elections in 2006: to govern. Thanks to Gaza's two competing trade routes, through tunnels to Egypt and to Israel through partially reopened terminals, prices have plummeted and Gaza's impoverished economy is again growing.

Yet to listen to the armed men of both sides you would think they were more comfortable at war. To fend off gibes that they have gone soft, Hamas's commanders flaunt rockets which they claim can hit Tel Aviv, Israel's biggest city. Israel's prime minister, Binyamin Netanyahu, too, is under pressure to prove his hawkish credentials. Given how he castigated his predecessor, Ehud Olmert, for failing to topple these supposed Iranian proxies in the most recent war, some of Mr Netanyahu's ministers have been urging him to prove he is made of sterner stuff and finish the job.

Both Mr Netanyahu's government and its Hamas counterpart in Gaza have responded to their warmongering grousers by letting their military men raise the stakes and attack each other, so far at a low level of intensity. Last month 36 mortars flew out of Gaza, up from ten in July. One of the groups Hamas tolerates in Gaza recently tested a Russian-made laser-guided missile, hitherto unseen in action in the region; it punctured the armour of one of Israel's prized Merkava tanks.

After some restraint, Israel is again hitting Hamas targets, most recently a training ground used by its military wing. Its army, too, is pushing a no-go buffer zone deeper into Gaza, shooting farmers and Palestinian youths scavenging for rubble from the latest war to substitute for the building material Israel still bans.

Accidents can happen when you play with fire. Had a rocket from Gaza that recently landed near a kindergarten in the Israeli port of Ashkelon struck toddlers, an even bloodier war than the last one might have erupted. Referring to Israel's founding war of 1948 that uprooted half of Palestine's population, a former senior Israeli intelligence man says "a mini-*naqba*", Arabic for "catastrophe", would be unleashed.

With no formal mechanism to mediate between the parties, neither side knows how to cool things down. Threats intended to deter attacks only seem to raise the war-fever further. In a recent message, Abu Obayda, spokesman for the Qassam Brigades, Hamas's military wing, which is the real power in Gaza, muttered, "We seek to avoid war and aggression against our people." But he buried such peaceful words in bravado that celebrated umpteen suicide-bombings and 11,000 projectile attacks that Hamas carried out in times past.

There is more to lose than lives. In government, Hamas has diverted much of its energy from fighting Israel to developing its "resistance" economy. One-time fighters speak openly of junking their death cult and discovering a new zest for life. Tired of waiting for Western governments to disburse the billions promised after the war of 2008-09, Hamas has begun rebuilding Gaza alone. Its agriculture ministry is replanting half a million citrus trees flattened, it says, by Israel's tanks. The electricity authority is bringing fuel through the tunnels under the border with Egypt to operate a second turbine at Gaza's power plant, reducing blackouts. And the housing ministry has been parcelling out the Jewish settlements Israel abandoned in Gaza in 2005 to housing associations for new homes at cheap rents. Hamas's entrepreneurs have set up roadside crushers to convert war rubble into breeze blocks.

Such is the demand that Gazans have almost run out of detritus. The wrecked industrial park near Erez, Gaza's northern border terminal with Israel, is now a vast sandpit. So, too, is most of Gaza's puckered airport runway. Scavengers have even dug up the foundations of the Palestinian passport office.

Israeli army men note the risks of an unbridled arms build-up and fear that, if Hamas consolidates in Gaza, it may launch a military takeover in the West Bank. The sooner another showdown between Israel and Hamas, some Israelis say, the better.

But Mr Netanyahu also has to calculate the costs. To topple Hamas, Israel would have to enter Gaza's cities, which Israel's forces shrank from doing last time round. A casualty toll far higher than the 1,400 Palestinians and nine Israeli soldiers killed would be one result. More UN-sanctioned investigations into alleged Israeli war crimes, along with the increased isolation of Israel, could well be another.

Moreover, if Israel's aim is to stop the rocket fire, unseating Hamas may have the opposite effect. Back underground, the Islamist movement could feel forced to revert from construction to destruction. The resulting mayhem would offer fertile ground for global jihadis, like al-Qaeda, to try their luck at fighting back. Israel and Mr Netanyahu may be wise to think again.

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Tunisia's troubles

Sour young men

Jan 6th 2011 | *CAIRO* | from PRINT EDITION

Why protests, once rare, are persisting

Bouazizi's plight

UNABLE to find a job after university, Muhammad Bouazizi moved to a big city and tried to get by, selling vegetables from a barrow. But police confiscated his unlicensed cart, slapping and insulting him. The 26-year-old returned to his home town in despair. Last month he stood in its main square, doused himself in petrol and struck a match. On January 4th he died of his injuries.

A tragedy like Mr Bouazizi's might pass unnoticed in many countries. But his struck a rare chord of dissonance with Tunisia's carefully nurtured image as a tranquil, orderly, mildly prosperous playground for tourists and foreign investors. The dramatic act sparked not just sympathy but a wave of protest that has carried on for three weeks, with no sign of

stopping. Trade unionists have joined students, lawyers, political campaigners and unemployed youths to demonstrate repeatedly in more than a dozen cities.

Police have struck back with clubs, tear gas and even bullets, killing two protesters in the southern town of Bouziane. President Zine el-Abidine Ben Ali has also sounded a conciliatory note, firing a handful of ministers and promising to inject as much as $4.5 billion into job-creation schemes.

The ostensible focus of protest is unemployment; 13% of Tunisians are officially out of work. The figure is double for young people, and even higher for recent college graduates. But the scale and persistence of the unrest point to deeper causes. Young Tunisians often find that the available jobs are menial, in keeping with a model of development that offers cheap labour to European investors. Another complaint is that Tunisia's prosperity is unevenly shared between richer coastal cities and the poor interior.

Some causes of the unrest are political. Since Mr Ben Ali overthrew Tunisia's last president, Habib Bourguiba, then 84, in a peaceful coup 23 years ago, his people have submitted to an unspoken bargain. In exchange for slowly rising prosperity, steady gains in health and education, and a degree of social peace that contrasts starkly with next-door Libya and Algeria, Tunisians have put up with diminished political rights, intrusive and unaccountable security services, and rising corruption at the top.

With formal politics and the press allowing little outlet for grievances, discontent has festered. At the same time, better education has turned nearly 4m of Tunisia's 10.5m people into internet users, with some 1.8m running accounts on Facebook alone. Despite efforts at censorship that put Tunisia's government among the worst offenders in global listings of enemies of free expression (measured for instance by a French-based lobby, Reporters Sans Frontieres), most Tunisians have heard about the WikiLeaks cables alleging greed and nepotism in Mr Ben Ali's circle.

Tunisia's troubles are unlikely to unseat the 74-year-old president or even to jolt his model of autocracy. Yet they may serve warning to governments across the Maghreb that a growing number of young people in the region feel increasingly frustrated and marginalised, as ageing and undemocratic leaders seem ever more out of touch with them.

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France's Socialist Party

The man who would be president

Jan 6th 2011 | *PARIS* | from PRINT EDITION

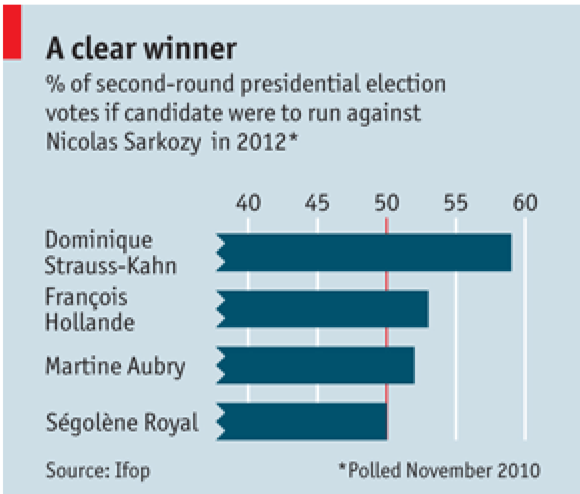
This year the French Socialists decide whom they will put up against Nicolas Sarkozy in 2012. All eyes are on Dominique Strauss-Kahn

DUMPED in Britain, rejected in Germany, booted out in Sweden and the Netherlands, the left is in decline across Europe. Among the big economies, only Spain is run by Socialists, and even there they are in trouble. The one country where the left ought to stand a good chance of breaking this trend is France, which holds a presidential election in 2012. With Nicolas Sarkozy deeply unpopular and the right having occupied the presidency since 1995, it is the Socialists' election to lose. But the party has an uncanny talent for blowing its chances by picking the wrong candidate. Is it about to do so again?

Candidates for the Socialist primary have until this June to declare themselves, ahead of a vote in the autumn. To outsiders, the choice looks simple. Dominique Strauss-Kahn (pictured campaigning in 2007), the head of the Washington-based IMF, boasts both heavyweight credentials and domestic appeal. A former finance minister of France, an ex-economics professor and one-time mayor of Sarcelles (a *banlieue* of Paris), he has grown in stature in his current job, at home and abroad. The French have become accustomed to seeing him hobnobbing with world leaders and bailing out debt-laden countries. In December he topped a popularity poll of French politicians.

Moreover, Mr Strauss-Kahn's calm, professorial manner has particular pull at a time when many French voters have tired of the hyperactive Mr Sarkozy. Unlike other Socialist hopefuls, such as Martine Aubry, the party's boss and the architect, a decade ago, of France's 35-hour working week, Mr Strauss-Kahn could also appeal beyond the party's natural base to France's centre and centre-right. One poll, admittedly an outlier, suggested that Mr Strauss-Kahn would beat Mr Sarkozy in a second-round run-off by a crushing 62% to 38%.

The big question for 2011, therefore, is whether Mr Strauss-Kahn will run. The decision is not risk-free. He would have to give up a plum job, and fat pay cheque, in Washington before his term expires, in September 2012, in order to fight a primary. And the field looks crowded. Segolene Royal, who beat Mr Strauss-Kahn in the 2006 primary but was defeated by Mr Sarkozy in the following year's presidential election, has announced that she will stand. So have Manuel Valls and Arnaud Montebourg, two younger aspirants. Francois Hollande, the party's ex-leader and Ms Royal's ex-partner, may also join the race. This time the primary vote is particularly uncertain as it is open to anybody who registers as a party supporter, not just to members. One Socialist who has seen Mr Strauss-Kahn recently puts at 50:50 the likelihood that he will return. Another friend is more upbeat: "If he says no now, with such good poll numbers, he will regret it for the rest of his life."



There is little hint that the Socialists are ready to put collective victory before personal ambition. Voters seem happy to elect them to run town halls and regions, but are put off by the tiresome antics of the theatrical Parisian elite. (The last time they elected a Socialist president was 23 years ago, in the shape of Francois Mitterrand.) The candidates miss no chance to undercut each other. In November Ms Aubry said, to general surprise, that she, Mr Strauss-Kahn and Ms Royal had struck a three-way deal not to run against each other. Days later, Ms Royal launched her candidacy.

Given that his current job forbids political comment, Mr Strauss-Kahn has kept silent about his intentions. This has lent him an almost mystical aura in France, which would doubtless evaporate the moment he stepped off the plane. His friends have long argued that he would not come back to fight a beauty contest, but only if he were called upon, de Gaulle-like, to save France. This may be fanciful. But the calculation he faces has shifted in recent months. Polls now consistently suggest that he would perform much better than any of his rivals in a run-off vote against Mr Sarkozy (see chart). His surge is particularly striking among Socialist voters, who many expect would distrust a man from the IMF. A year ago 25% of them told Ifop, a polling organisation, that Mr Strauss-Kahn was their preferred candidate, next to 27% for Ms Aubry. By November they favoured him by 41% to 17%.

Moreover, should Mr Strauss-Kahn decide to stand in the primary race, some of his rivals may drop out. Ms Aubry, who has shown no burning desire to run, would certainly not do so against him. (The most recent Socialist boss to become the party's presidential candidate was Mitterrand, in 1981.) Even Ms Royal, who may be manoeuvring as much for a top job under a potential Strauss-Kahn presidency, might not run were he to stand. After declaring her candidacy, she added: "When the time comes, I will see with Dominique which is the best winning arrangement."

Should he go for it, Mr Strauss-Kahn's biggest test may be to readapt to the Socialists' left-wing centre of gravity, which puts them at odds with most European social-democratic parties. Only this week the party was up in arms when Mr Valls, one of the younger crowd, suggested abolishing the 35-hour week. In December a proto-manifesto entitled "Real Equality" called for creches, jobs, housing and holidays for all, with passing reference to how to finance them (more taxes on higher earners and an end to tax breaks for the rich).

The pamphlet's author (and Socialist spokesman), BenoÃ®t Hamon, brushed off doubts about its credibility: "Whom do we want it to be credible to? Moody's rating agency, or Renault workers?" If Mr Strauss-Kahn returns, the champion of IMF austerity will need gymnastic suppleness to square his centrist appeal with the left-wingery of much of his party.

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Spain and ETA

On the verge of a nervous peace

Jan 6th 2011 | *MADRID* | from PRINT EDITION

Is ETA about to declare a permanent ceasefire?

ONE measure of the decline of ETA, the Basque separatist terror group, is that even Basques no longer consider it much of a worry. The group's fall into long periods of inactivity, punctuated by fitful bursts of violence, has combined with economic fears, notably about Spain's runaway unemployment, to push it to the back of Basque minds.

That has not stopped speculation over what ETA plans to do next. Four months ago it declared a halt to "offensive armed actions". Spanish press reports claim the group will soon upgrade this ceasefire to become "verifiable" and "permanent". But its words are hard to trust. Florencio Dominguez, a Basque terrorism expert, points to the group's long history of broken promises and failed truces.

Spain's Socialist prime minister, Jose Luis Rodriguez Zapatero, will not need reminding of this. Four years ago, believing ETA was serious about peace during a previous ceasefire, he publicly declared his optimism. A day later an ETA bomb at Madrid's Barajas airport killed two people and brought down a multi-storey car park. "All we want from ETA is a definitive end to violence. A total and absolute end, forever," Mr Zapatero said in response to the latest rumours.

The prime minister has new Basque friends to bolster him. Since October his minority administration in Madrid has been propped up by the six deputies of the Basque Nationalist Party (PNV), who provide their support in return for various goodies from the government. Relations between Mr Zapatero and IÃ±igo Urkullu, the PNV leader, are blossoming. The two men reportedly speak several times a week. There is certainly much to discuss, not least reforms to Spain's pensions and collective-bargaining arrangements that Mr Zapatero must drive through soon.

But the chemistry seems to work best when it comes to ETA. Backing Mr Zapatero, Mr Urkullu has said, "creates a basis for peace". Both men believe that the time has come for the weakened group to realise that, after more than four decades of violence, the game is up. The Socialists and the PNV are adversaries rather than allies in the Basque parliament. But the solid relationship between the parties at national level stops ETA driving a wedge between nationalists and non-nationalists, wrapping itself in the Basque flag and claiming its members as martyrs for the wider nationalist-separatist cause.

The hawkish opposition People's Party (PP), which fiercely opposed talks between Mr Zapatero's government and ETA during the previous ceasefire, has kept quiet this time. That is largely because the government's tough line is now closer to its own. But observers detect the moderating force of the PP's leader in the Basque country, Antonio Basagoiti. Mariano Rajoy, the PP's overall leader, may also be thinking of the incipient peace process he might inherit if he leads his party back to power next year, as opinion polls suggest he will.

Yet none of the mainstream parties have much influence on ETA's actions. The group's moves towards peace have more to do with splits inside the radical-separatist world than pressure from the outside. Leaders of Batasuna, ETA's banned front party, mostly believe terrorism has had its day. They are also desperate to get back into politics, to recover the town halls they once ran and to exercise their political weight on behalf of the 10% or more of Basque voters who back them. Even some imprisoned ETA members have said they want the group to lay down its arms. Municipal elections are due in May. Either ETA abandons violence by then, or a large number of radical Basque separatists will be tempted to abandon it.

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Ireland's election

Epic fail

Jan 6th 2011 | *DUBLIN* | from PRINT EDITION

Ireland's voters prepare to wreak vengeance on their government

FIANNA FAIL has been Ireland's natural party of government ever since it swept into power under Eamon de Valera in 1932. It has been in office for three out of every four years since, and usually scoops at least 40% of the popular vote at elections. But this era of dominance may be coming to an end. A general election is likely in late March, once parliament has passed the tough budget measures needed to meet the terms of an euro85 billion ($113 billion) bail-out agreed with the European Union and the IMF. Fianna Fail, which rules in coalition with the Green Party, faces electoral meltdown.


This is going to hurt

The election could prove a watershed event for Fianna Fail, transforming Ireland's political landscape to the party's detriment, just as the 1932 election did to its benefit. The prime minister, Brian Cowen (pictured), enjoys a public approval rating of just 14%. His party fares little better, with one recent poll finding just 17% of voters supporting the government. If that is reflected in the election result, Fianna Fail could lose up to half its seats. Rather like the country it has ruled since 1997, the party is deep in debt, which will make an effective election campaign hard to mount. Unsurprisingly, morale is low: two ministers have decided not to seek re-election.

The party's two biggest failings in government have been the mismanagement of a property-induced economic boom followed by an underestimate of the scale of the bust and the losses incurred by Ireland's banks, which had their liabilities guaranteed by the government. This has given the likely next government, a Fine Gael-led coalition with Labour, an ideal election platform. Mr Cowen's best hope for minimising his party's losses is to exploit tensions between the opposition parties. Fine Gael broadly accepts the terms of the EU-IMF bail-out, but Eamon Gilmore, the Labour leader, says he would seek their renegotiation. Most dismiss this as opportunism, but Mr Cowen will pounce on it.

Fine Gael and Labour will almost certainly win a huge majority at the election. Mr Gilmore, whose personal approval rating of 44% is nearly double that of Enda Kenny, his Fine Gael counterpart, is eyeing the prime minister's job. Fine Gael, the bigger party, will resist this. But both parties have yet to recognise how much their room for manoeuvre in government will be limited by the terms of the EU-IMF rescue. Their inheritance will be the loss of economic sovereignty negotiated by their predecessors.

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Italy's brain drain

No Italian jobs

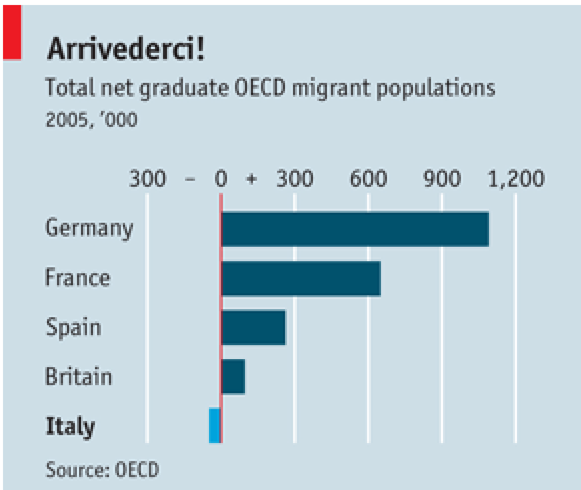
Jan 6th 2011 | *ROME* | from PRINT EDITION

Why Italian graduates cannot wait to emigrate

ALESSANDRO WANDAEL is a photographer. His is a profession in which success should depend on talent alone. But not so in his native Italy. The photo credits in magazines show that photographers who have family or other close ties to editors are working regularly, he says. "Those who don't, aren't."

The 37-year-old Mr Wandael, a former architect, has lived abroad ever since graduating: first in Berlin; now in New York. Figures in this field are often outdated and vague. But Mr Wandael is far from alone. According to 2005 statistics published by the OECD, he is among some 300,000 highly educated Italians who have opted to leave a country that has become rich without dismantling a social framework in which access to jobs depends on family ties, political affiliations and *raccomandazioni* (string-pulling recommendations). Last month saw unexpectedly violent student protests in a number of cities against proposed reforms to the university system. Some commentators detected in this a symptom of the frustration the Italian way of doing things generates among the educated young.

How serious is the problem? It "does not exist", said a junior minister in 2002, claiming that only 150-300 graduates a year left the country for good. A minister in the current government privately acknowledges the phenomenon, but says that the only real cause for concern is the departure of scientific researchers. But neither of these contentions stands up. A 2004 study found that, of all Italian emigrants, the share of those with degrees quadrupled between 1990 and 1998. In 1999, according to a separate study, 4,000 graduates cancelled their Italian residency. And just 17% of Italian graduates in the United States, the most popular destination, are involved in research and development, according to the (American) National Science Foundation. The biggest chunk work as managers.



Yet what distinguishes Italy from its peers is not the absolute number of its exiled graduates (in 2005 more left Britain, France and Germany than Italy), but that it has a net "brain drain" (see chart), something more typical of a developing economy. In other words, the number of educated Italians leaving the country exceeds the number of educated foreigners entering it. By contrast, many of Italy's developed-world counterparts are involved in "brain exchanges": as British computer scientists disappear to Silicon Valley, Spanish medical researchers find work in Britain, for example.

Last year Silvio Berlusconi's government made the second attempt in nine years to lure back exiled academics, this time with tax breaks. But this misses the point, according to Sonia Morano-Foadi, a law lecturer at Oxford Brookes University who interviewed more than 50 emigre Italian scientists in 2006. Her subjects identified two main reasons for their decision to quit the homeland. One was Italy's scant investment in R&D (the lowest of the European Union's 15 pre-2004 members). The other, "the most important and difficult problem of academia in Italy", was its "non-transparent recruitment system".

Serbia's arms industry

Bombs away

Jan 6th 2011 | *BELGRADE* | from PRINT EDITION

Serbia's arms exporters are thriving

SERBIA'S victory in the 2010 Davis Cup proved, say Serbs, that it has the best tennis players in the world. It claims to be the world's largest raspberry exporter. But the latest boast may come as more of a surprise: that the country's once-renowned arms industry is making a comeback.

Before it fell apart in the wars of the 1990s, the former Yugoslavia was a big arms exporter. NATO damaged many of Serbia's weapon factories in 1999 during the Kosovo war. But the industry has started to recover. In 2008 Serbian military exports were worth $200m. Last year they brought in twice that sum (not including a $400m contract, signed in November, to build three arms factories in Algeria). Yugoimport-SDPR, the trading arm for six of Serbia's main producers, says sales have been growing by 30% a year since 2002. Defence accounts for 4% of Serbian exports and 10,000 jobs.

The industry is also growing in sophistication. Until 2007, says Dragan Sutanovac, the defence minister, ammunition accounted for the vast bulk of Serbian military exports. Many of the ammunition plants in the former Yugoslavia, including the Sloboda factory in Cacak, which was damaged by a series of (probably accidental) explosions on December 27th, were located in Serbia. But in the past few years Serbian companies have begun exporting modernised versions of older mobile howitzers, training planes and fire-control and anti-tank rocket systems.

Serbian officials seeking out new business are renewing contacts first made in the cold-war days, when Yugoslavia was a leading light of the non-aligned movement, says Daniel Sunter, editor of *Balkan Intelligence*, a newsletter. "We took out the books from the past," says Mr Sutanovac. North Africa is a main target. Serbs receive a warm (and nostalgic) welcome in countries such as Libya, where many senior officers fondly recall their training in Belgrade more than 20 years ago.

The new year may offer some big prizes. Mr Sutanovac says Serbia is close to signing a $500m agreement to build a military hospital in at least one Arab country. He also hopes to win a $400m contract to modernise 149 M-84 tanks that Yugoslavia exported to Kuwait in 1991.

The M-84 was assembled in Croatia from components made throughout Yugoslavia. Now those ties are being restored. Serbian, Bosnian and Macedonian arms companies are working together, and a Serbia-Croatia defence agreement signed in June also envisages co-operation. If Serbia wins the Kuwait contract, says Mr Sutanovac, some of the work will probably be shared between Bosnian, Croatian and Slovene companies.

Mr Sutanovac says that NATO has given the Serbian arms industry the go-ahead to export to its armies. Much modernising remains to be done before that can begin in earnest. Still, says Mr Sutanovac, defence sales are the country's fastest-growing industry after agriculture. Guns are also worth rather more than raspberries.

Polish politics

Get a move on

Jan 6th 2011 | *WARSAW* | from PRINT EDITION

The government should win re-election this year. Then it can get on with reform

Re-elect me, says Tusk, and the stadium gets a roof

POLAND must hold a general election by October this year, and Donald Tusk's centrist Civic Platform should be cruising to re-election. Since winning a landslide victory in 2007, the party has enjoyed a 10-20% lead in the polls over its nearest rival, the national conservative Law and Justice party of Jaroslaw Kaczynski. The economy is humming: GDP growth is estimated at 3.5% in 2010 and is forecast to reach at least 3.7% this year. Revenues from privatisation are plugging the gaps in the public finances, as will plans to divert private-pension contributions to the state. Preparation for the 2012 European football championships, to be held jointly with Ukraine, has swelled Polish pride (a huge new national stadium, pictured, rises on the Warsaw skyline like the mother ship from a science-fiction novel).

But behind this cheery facade the edifice is creaking. The government's polling lead has more to do with the opposition's unpopularity than with its own achievements. Foreign-policy successes in making friends with Russia and Germany have lately been overshadowed by the crackdown in Belarus, a country that Poland had energetically wooed. Mr Tusk's ministers have displayed a worrying tendency to dabble in distractions, such as a crackdown on semi-legal drugs and the enticing prospect of a new public holiday, rather than focusing on the serious reforms needed in state administration, the public finances and the labour market.

At 7.9% of GDP, the government deficit is four times what it was in 2007. (That fiscal stimulus is a big reason for Poland's healthy growth.) Public debt is scraping Poland's constitutionally mandated limit of 55% of GDP, and the finance ministry appears to be propping up the zloty in order to hold down the value of foreign-denominated debt.

Moreover, many taxpayers struggle to see the benefits of the government's lavish spending (although farmers and police still enjoy socialist-era privileges, such as tax exemptions and early retirement). Despite some improvements, such as better rail links from Warsaw, infrastructure in much of Poland is dire. On December 27th Cezary Grabarczyk, the infrastructure minister, announced new delays to a planned upgrade of the country's lethal roads.

In the past the government used the presidential veto as an excuse for inaction. But the man who wielded it, Lech Kaczynski, twin brother of the opposition leader, perished in a plane crash in April, and the presidency is now occupied by Bronislaw Komorowski, a Civic Platform man. The new explanation for inaction is that painful reforms would play into Law and Justice's hands.

But the weak and divided opposition still struggles to take the initiative. Jaroslaw Kaczynski's emotional helter-skelter since his brother's death has rattled Law and Justice to the point of disintegration. Mr Kaczynski's support remains strong in the party's Eurosceptic and devout Catholic core. But in November a group of his colleagues broke away to form a new party, PJN, whose name translates roughly as "Poland matters most".

PJN says it wants deeper, faster reforms: a challenge to Mr Tusk's go-slow tactics as well as to Mr Kaczynski's welfarist, statist approach. But the new outfit botched its launch, wasting its effort on wooing supporters from its old camp rather than appealing to jaded Civic Platform voters. On current form, PJN would barely scrape into parliament.

Poland will hold the European Union's presidency in the second half of this year. That should be a chance to show off the country's modern credentials to an often condescending western Europe. An election campaign in the middle of that won't help. So some wonder if Mr Tusk might call a snap poll in the next few weeks. Either way, victory would make him the first serving Polish prime minister to be re-elected. With that historic triumph behind him, he could concentrate on making the changes that the country needs.

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Charlemagne

Hungary's other deficit

Jan 6th 2011 | from PRINT EDITION

The European Union has few legal means to stop Hungary's leaders from eroding democracy

THE rotating presidency of the European Union is, mercifully, a much-diminished affair, as a result of the Lisbon treaty. Gone are the days when countries chairing EU meetings for six months would try to outdo each other with lavish events, fine cuisine and communiques praising their pet obsessions. Summits are now more humdrum, held in Brussels and chaired by a permanent president, currently Herman Van Rompuy.

Belgium's just-concluded presidency was exemplary in its understated running of Europe's ministerial business, helped by the absence of a proper government since June. Hungary's turn, which began on January 1st, was never going to be as modest. On the taxiway of Budapest airport, a large banner celebrates the happy occasion. The presidency offers a small, former communist state a chance to promote itself. Viktor Orban, Hungary's pugnacious prime minister, was keen to seize his moment of fame.

Little did Mr Orban know that he would be so roundly jeered when he stepped on to the stage. Forget his European aims, such as reform of the euro, enhanced energy security and a Europe-wide programme for the integration of Romanies; the spotlight now shines on Mr Orban's domestic skulduggery. On December 21st his Fidesz party passed the second part of contentious legislation placing broadcast, print and online media under the supervision of a new authority with power to impose large fines for ill-defined offences such as breaching "human dignity". All the authority's members were nominated by Fidesz, which enjoys a two-thirds parliamentary majority.

Fidesz says it has no wish to curb press freedom, citing its history of resistance to Soviet communism. Yet opposition newspapers have published blank front pages in protest. The Organisation for Security and Co-operation in Europe has expressed alarm. Germany, France and Britain have voiced concern. Luxembourg's foreign minister, Jean Asselborn, says the affair "raises the question whether such a country is worthy of leading the EU". One German newspaper called Hungary a *Fuhrerstaat*.

Were the furore just about the media laws, Mr Orban might get away with his claim that the provisions are drawn from the laws of other democracies. But his action looks worryingly like the latest in a campaign to weaken independent institutions and centralise power. Pal Schmitt, a Fidesz loyalist, has been appointed Hungary's president. In pursuit of a "patriotic" economic policy, the government has rejected the IMF's prescriptions, raided private pensions, acted to replace the fiscal council overseeing the budget, sought to unseat the governor of the central bank and restricted the powers of the constitutional court. One-off "crisis" taxes have alarmed foreign investors and prompted an inquiry by the EU. Propaganda displayed in public buildings grandly claims that only now has Hungary regained its self-determination, even though the country has been free for two decades.

This is not a return to totalitarianism. But the Hungarian government's power grabs raise a difficult question. Would a country on such a path be allowed to join the EU? Probably not. But in promoting democracy, the EU has less influence on members than on applicants. As one diplomat says: "To join the EU you have to smell of roses. But if you are a member and you start to reek, there is nobody to make you take a bath."

Mr Van Rompuy's olfactory sense certainly failed him when he visited Budapest to celebrate Hungary's presidency on the day the media law was passed. Mr Orban, he said, had made an "excellent impression". The European Commission has wrinkled its nose, asking Hungary for clarifications, but is not keen for a fight after its humiliation in September, when it retreated from a legal battle with France over its expulsion of Romanies.

Eurocrats say they are unlikely to take Hungary to the European Court of Justice, even though the EU's charter of fundamental rights declares that "the freedom and pluralism of the media shall be respected". The commission says this is limited to the actions of EU institutions and of states enacting EU legislation; it does not apply to domestic policies even if, as in Hungary, dubious provisions are attached to laws transposing EU directives.

Socialist MEPs have raised the nuclear option: suspension of Hungary's voting rights for a "serious and persistent breach" of the EU's founding values, which include "freedom, democracy, equality, the rule of law and respect for human rights". For now, no state will take such drastic action. Concerned Eurocrats say redress may be available in the European Court of Human Rights in Strasbourg (established by the Council of Europe, not the EU).

The democratic deficit

The EU's rule book is thus oddly skewed. The euro crisis is leading to a tougher system of monitoring members' economies, with early warnings and sanctions to control fiscal deficits. Yet there is no such machinery to deter democratic deficits. True, democracy cannot be quantified like public borrowing. But the EU may need to find a way to enforce minimum political standards, especially if extremists are boosted by the economic crisis and the EU's demands for ever-greater austerity.

Peer pressure is the best response. A political boycott of the sort briefly applied to Austrian ministers when Jorg Haider's far-right Freedom Party joined the government in 2000 is inappropriate, for the time being. Instead, European leaders need to be blunter. In public and in private, at ministerial meetings and chandelier-lit receptions, Mr Orban must be told to change his ways. Angela Merkel's office has said that, as president, "Hungary naturally has a special responsibility for the image of the European Union as a whole." In the limelight for the next six months, Mr Orban is more vulnerable. The presidency may yet turn out to be his curse, and Hungarian democracy's blessing.

Economist.com/blogs/charlemagne

Bold newspapers

The crucible of print

Jan 6th 2011 | from PRINT EDITION

Britain's embattled newspapers are leading the world in innovation

BY MOST conventional measures, Britain's newspapers look doomed. Young readers are abandoning them for the internet and television. The *Daily Express* and the *Daily Mirror*, both tabloids, have shed about two-thirds of their circulation since the mid-1980s. Yet Evgeny Lebedev, co-owner of the *Independent* and the *Evening Standard*, is optimistic. "People are hailing the death of newspapers," he says. "But if you go into the Tube, you'll see almost everybody is reading one."

Britain's newspaper market is the world's most savage. It is unusually competitive: there are nine national daily papers with a circulation of more than 200,000. And advertising has migrated online more quickly than elsewhere. Since 2009 more advertising money has been spent on the internet than on newspapers, according to ZenithOptimedia, a marketer. British papers receive no government funding (as is the case in France, for example). Indeed, they face a fearsome state-sanctioned competitor in the BBC.

Fierce competition has created a scrappy, sometimes immoral trade. This week the *News of the World*, a tabloid that has been caught up in a celebrity phone-hacking scandal, revealed it had suspended an editor. But Britain's papers are also exceptionally innovative, busily testing new format sizes and prices. Paul Zwillenberg of Boston Consulting Group says they are now experimenting in dramatically different directions. There are three main trends.

The first is being driven from Wapping, London home of News Corporation. Its four British titles-the *Times*, the *Sunday Times*, the *Sun* and the *News of the World*-are moving behind an exceptionally tough online paywall. Unlike the *Wall Street Journal*, also owned by News Corporation, the *Times* does not allow people to read any articles free on the web. Its prices are steep: pound2 ($3.10) per week after the first month.

Not worth the paper they aren't reading

As online commentators and rivals have gleefully pointed out, News Corporation's paywalls have led to a drastic drop in traffic. A survey by Mark Oliver, a consultant, finds that only 14% of regular *Times* readers and just 1% of non-regular ones subscribe to the website in some form: upon hitting the paywall, most head for the BBC's free website instead. That

does not worry News Corporation. It sees online advertising as an unreliable source of revenue. Online ad spending is growing, but the number of ad slots available is rising much faster; as a result, prices are so low that a reader who visits a website once or twice a month is hardly worth having. The firm would rather extract more money from dedicated readers directly.

Thus the pages of the *Times* and *Sunday Times* are thick with in-house ads offering entertainments to readers, from iPad applications to theatre tickets and Italian holidays. Some 250,000 people buy from the *Times* wine club. These things tend to make money, but the main goal is to hook readers on a bundle of services. Katie Vanneck-Smith, chief marketing officer for News Corporation's British papers, wants to get to the point where a newspaper subscription is like its pay-television or mobile-phone equivalents: something it hurts to cancel. Rivals fear the firm will bundle newspapers with BSkyB, a hugely successful satellite broadcaster that it controls and wants to take over completely.

Britain's second great innovator takes the opposite view. The *Daily Mail* contends that online advertising works fine-if you are huge. The paper has been one of the most consistent sellers in print over the past few years, crushing its nearest competitor, the *Daily Express*. But it is even mightier online. With 35m unique visitors each month, it is now the world's second-biggest newspaper website, according to comScore, which measures online traffic. It may take the top spot when the *New York Times* goes behind a paywall this year.

In contrast to the paper, which is conservative and often alarmist, the *Daily Mail*'s website is a breezy read. It is big on celebrity news, particularly reports involving attractive women in swimsuits. Lots of online news aggregators link to it. Executives claim that the website is now so successful that it competes not with other newspaper websites but with portals such as Yahoo! and MSN.com. The *Mail* is now steering readers to its iPhone application.

Perhaps the most counter-intuitive strategy is being pursued by Mr Lebedev and his father, Alexander, a Russian tycoon. In the past two years they have acquired the *Independent* and the *Evening Standard*, a London paper that they have made a freebie. In October they launched *i*, a cut-down *Independent*, priced at 20p-one-fifth the price of most quality daily newspapers. It is the first new national paper since 1986.

Not one of the Lebedevs' British papers has a compelling website. They think young people do want to read newspapers-they just don't want to pay much, or anything, for them. The *Evening Standard*'s circulation has more than doubled since going free, to 700,000. Distribution costs have plunged. Papers are now handed out in central London and moved around the capital by Tube: because they are free, commuters often leave them on trains.

The *Independent* and *i* face a harder road. Because *i* is so cheap, newsagents make little money from sales. They often shelve it with bottom-feeding tabloids and the *Racing Post*. Yet *i* is an intriguing effort to prop up the *Independent*, which was nearing the point at which marketers were losing interest: now advertising often runs in both papers, which together offer a higher circulation. It costs little to assemble and may help keep alive the newspaper habit, by offering a halfway house between free and premium papers.

The strategies being pursued by News Corporation, the Daily Mail and General Trust and Lebedev Holdings rest on distinct assumptions about what readers want, what they will pay for, and the future of advertising. It is highly unlikely that all three experiments will work. It may well be that none of them does. But none can be faulted for lack of boldness.

The innovators also exude more confidence than others. The *Guardian*, which first championed a big, free online presence, has been overhauled by the *Mail*'s website. It lacks News Corporation's expertise in bundling and is far more expensively staffed than the Lebedevs' outfits. It is a measure of how quickly things are moving that the newspaper closest to the cutting edge a few years ago now seems most in need of a new strategy.

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Dealing with suspected terrorists

Last orders?

Jan 6th 2011 | from PRINT EDITION

Unpleasant but of declining use, control orders are not worth a big political fight

IN OCTOBER David Cameron reportedly warned Theresa May, the Conservative home secretary, and Nick Clegg, the Liberal Democrat deputy prime minister, that the coalition government was "heading for a fucking car crash" over control orders for terrorist suspects. His words have, it seems, been heeded. As *The Economist* went to press, the finishing touches were being put to a compromise that those on both sides of a bitter argument over the right balance between security and civil liberties seemed just about prepared to accept.

When the coalition was being formed, the two parties made much of their common commitment "to reverse the substantial erosion of civil liberties under the Labour government". High on the list were counter-terrorism laws, notably the control orders introduced in 2005 to restrict the liberty of terrorist suspects who could be neither prosecuted nor deported. The other big target was the previous government's extension of the time that suspects could be held without charge.

In July Mrs May announced a rapid review of counter-terrorism laws. At the insistence of Mr Clegg, Lord Macdonald, a Lib Dem peer, former director of public prosecutions and avowed opponent of both measures, was appointed to provide "independent oversight" of the review. Scaling back pre-charge detention from 28 to 14 days is now largely agreed. Control orders have proved much more divisive.

The orders are objectionable to many, and with good reason. The home secretary can ask the high court for an order restricting the liberty of a person who is suspected of posing a terrorist threat but cannot be prosecuted, either because the evidence is insufficient or inadmissible, or because using it would imperil national security or sources. Curfews of up to 16 hours a day, electronic tagging, denial of access to telephones and computers, bans on association and forced relocation are common restrictions. And the process is murky. Suspects have no direct access to the secret evidence underpinning the orders; many of the officially vetted "special advocates" representing them who do see it complain that they are ill-equipped to assess and challenge it.

Yet some of the harshest features have been worn down by the courts. A judgment by the European Court of Human Rights in 2009, backed up by the House of Lords, limited permissible restrictions and insisted the suspect be given sufficient access to the "gist" of the allegations against him to instruct counsel. The number of control orders in force has fallen from 20 in March 2009 to just eight. Of those, according to some who have seen the relevant evidence, only between three and five apply to suspects considered a "hard-core" terrorist threat.

Given that the security services keep hundreds of people under surveillance, the importance of control orders is arguably more symbolic than real. But that symbolism has been enough to provoke an almighty row at the heart of the coalition, already strained by the unpopular decision to raise university-tuition fees, a move the Lib Dems had promised on the campaign trail to oppose. For all their harmony after the election, Mr Clegg's party had pledged before it to scrap control orders, the Tories merely to review them. As key Tory figures began to swing behind retaining them, Lib Dems feared another pledge was destined to be repudiated.

At first, Mrs May seemed inclined to dispense with control orders. But the security establishment, four former home secretaries and the government's official counter-terrorism watchdog-another Lib Dem peer, Lord Carlile-apparently changed her mind. Mr Cameron, fearful like his predecessors that a terrorist attack might be attributed to his negligence, shuffled uneasily towards supporting her. But coalition management demands compromise.

If one is within reach, it is partly because control orders have become largely irrelevant in the fight against terrorism and partly because, unlike tuition-fee hikes, they stir Lib Dem activists but do not especially excite voters. It is likely that the menu of restrictions will be scaled back; suspects will be allowed internet access on government-owned computers and some mobile-phone use; forcible relocation will be ended; and curfews may be largely replaced by elaborate notification of movements and meetings. Critically, all orders will have to expire within a limited time.

Mr Cameron confirmed on January 5th that he was working with Mr Clegg to replace control orders with something better. As for the security services, they seem fairly calm. As one source put it: "There is always a balance to be struck. Control orders are one tool in the box. We'll get on with whatever we're given."

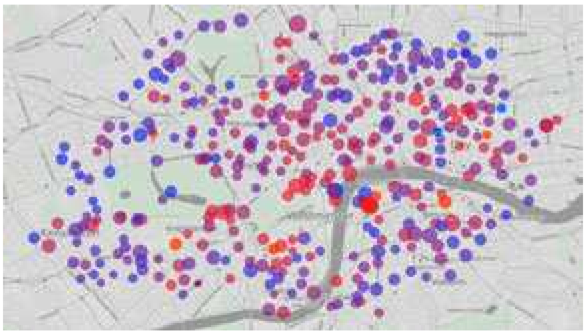
London's bicycle-hire scheme

Grit in the gears

Jan 6th 2011 | from PRINT EDITION

Early snags for the mayor of London's pet transport project

BESIDES being the Year of the Tiger, the International Year of Biodiversity and the Year of the Lung, 2010 was also, in London at least, the "Year of Cycling". Following assorted cities in France, Spain, the Netherlands and North America, London launched a municipal bicycle-hire scheme in July, with 5,000 bikes scattered around hundreds of docking stations in the centre of the city.



Boris Johnson, London's mayor (and himself a keen cyclist), has been quick to declare the initiative a success, trumpeting the fact that it accounted for 2m journeys in the first five months of operation. The blue bikes-which weigh a hefty 23kg to deter thieves-have become a common sight. Transport for London (TfL), which runs the city's transport networks, is hoping to expand the scheme and boost cycling's share of travel in London from its current paltry figure of around 2% of all trips.

But the project has its problems. It has not yet met its original usage target of over 50,000 trips a day, instead peaking at around 24,000 during the summer. There have been frequent complaints of local mismatches between supply and demand, with many riders suffering from the opposing problems of either being unable to find bikes to rent or being unable to find an empty rack to drop them off.

Transport officials point out that these are early days. Once TfL has more data, it says in its defence, it will tweak the location of the racks and the supply of bikes. Alas, its cycling experts were unable to design precisely the system they wanted, as many bike bays were refused planning permission by London's local councils.

Some observers wonder whether TfL has fundamentally misjudged the nature of bike demand. Its own feasibility study, published in 2008, acknowledged that the scheme could not afford to cater for the "after-rail" market (ie, longer-distance railway passengers wanting to finish their journeys by bike), lest it be swamped by the number of commuters arriving in London every morning. Docking stations were deliberately placed away from big railway terminals. But rail commuters appear to have piled onto the bikes anyway.

The resulting tidal flow of riders into central London in the morning and then out again in the evening might explain the periodic scarcity of spaces, as it shunts bikes wholesale from peripheral racks to central ones and back again. Serco, the private firm that operates the system, uses lorries to lug bikes across London in order to free up space in crowded racks and resupply depleted ones, but does not always seem able to keep up.

Stephen Glaister, a transport economist at Imperial College, London (and another devoted cyclist), wonders if the scheme is aiming at the wrong problem. "There has never been a shortage of bikes in London," he says. "It's just that people are afraid to use them." Compared with many European cities, London is a rather unpleasant place for cyclists. Mr Johnson has set up "cycle superhighways", but these are little more than sections of road painted blue, and they have a disturbing tendency to disappear at busy junctions. Experienced cyclists point enviously to Amsterdam, where the sheer number of bicycles makes motorists more careful, and where special bike lanes are segregated from both cars and pedestrians by kerbs.

TfL is hoping that encouraging cycling will start a virtuous spiral, with motorists taking more care as more people venture onto two wheels. But it says there is little it can do about the roads. Economists might recognise a phenomenon called "path dependency": London has for so long been dominated by cars that installing proper cycle lanes might mean demolishing some buildings and closing busy roads for long periods. With cycling accounting for only one trip in 50, it would be a brave mayor who did that.

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Public relations

Ego goes solo

Jan 6th 2011 | from PRINT EDITION

What Matthew Freud's manoeuvres say about the future of PR

For my next trick

FOR all his success as a PR man, Matthew Freud has regularly flouted his industry's oldest rule and become the story himself-thanks to his glamorous lifestyle and habit of voicing strong opinions about Rupert Murdoch, his father-in-law. Now he is in the news again, after taking back control of Freud Communications from Publicis, the French advertising holding that had owned a controlling stake. On New Year's Eve Mr Freud bought back some of the 50.1% stake that he had flogged to Publicis in 2005.

He has pulled this trick before. In 1994 he sold his company to Abbott Mead Vickers (AMV), a British advertising agency, for pound10m ($16m). In 2001 he wrestled it back for the same sum from Omnicom (like Publicis one of the four big global advertising outfits), which had taken over AMV. For a boutique PR firm to escape the embrace of one of these networks is unusual; to do it twice is especially bold.

Maurice Levy, the boss of Publicis, had seemed happy with Mr Freud's strategy of focusing less on celebrity clients such as Geri Halliwell, a pop star, and more on Pepsi, Nike and other multinationals. In 2009 Freud Communications increased its profits by a quarter, to pound6.7m, on a turnover of pound33m; it won the coveted lead marketing account for the 2012 London Olympics. But Mr Freud seems to have been irked that his plans for foreign expansion had not been fulfilled. Publicis still owns a chunk of the company, but relations have soured.

Mr Freud has big ambitions-which reflect the evolving nature of PR. He recently bought stakes in Engine and M&C Saatchi, two dynamic ad agencies whose senior managers are close to retirement, and owns 30% of Pitch, a sports-communications agency. These could be his first steps to building his own PR empire. He says the future of PR is bright because of the growing importance of "reputation management".

As companies are increasingly judged and held to account online, chief executives are turning to PR men to burnish their images. "Companies are paring back on advertising and switching to PR, which grasped the opportunity of social media for reputation management," says John Quelch of Harvard Business School. Mr Freud maintains that small, nimble firms are as able to capitalise on this as the giant networks. He seems unlikely to be distracted any time soon by overtures from the two big advertising holdings that have not yet owned his company.

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Kitchen cabinets in politics

Can stand the heat

Jan 6th 2011 | from PRINT EDITION

The little-noticed, and less understood, back-room boys of Westminster

Less their masters' voices than their brains

SURVEYS often find that even very senior politicians struggle to be recognised by an indifferent public. The advisers who serve them are even more anonymous. Toiling away in Westminster's back rooms are aides whose influence comes without the burdens of public exposure. And at least for the handful of very senior advisers, that influence is considerable.

All three party leaders now have a powerful right-hand man. Ed Miliband is a far punchier leader of the Labour Party than he was just a month ago, an improvement widely credited to Tom Baldwin (pictured right), a former journalist, who became his director of strategy and communications in December. Richard Reeves (centre) left a career in think-tanks to serve in a similar role for Nick Clegg, soon after the Liberal Democrat leader became deputy prime minister last May.

David Cameron, the prime minister, has perhaps the most influential adviser. Steve Hilton (left), who worked in advertising for Saatchi & Saatchi before setting up his own consultancy, orchestrated much of the "modernisation" of the Tory party when it was in opposition. In government, he is one of a trio of back-room aides (with Andy Coulson, Mr Cameron's communications chief, and Jeremy Heywood, Downing Street's most senior civil servant) who help to make the government tick.

Exactly what "kitchen cabinets" do is as little recognised as the people in them. Perhaps due to the hype surrounding the use of professional media-management during the New Labour era, many voters assume that political advisers are generally just crafty spinners. This was not even true back then. Ed Balls shaped much of Labour's economic policy as a young adviser to Gordon Brown during the latter's time as chancellor of the exchequer. He now has less influence on how the country is run as shadow home secretary.

In the current government, too, the advisers at the very top tend to specialise in big ideas and strategy. The idea of Mr Reeves, a cerebral biographer of John Stuart Mill, harassing errant journalists is comical. Mr Hilton, whom Mr Cameron trusts to do the government's long-term thinking, barely follows the headlines. And while journalists grumble that the prime minister's media operation could be more attentive, the biggest reorganisation taking place in Downing Street is in the policy unit, which is being expanded under the supervision of Oliver Letwin, the Cabinet Office minister, and Danny Alexander, the chief secretary to the Treasury.

If more voters knew that the power of unelected, taxpayer-funded advisers extended far beyond mere spinning, their suspicion might only be aroused further. But though these advisory roles bring with them dilemmas of scrutiny and accountability, they are at least aimed at dealing with a problem that ministers past and present bemoan intensely, if privately: the lack of staff who are both qualified and committed to their masters' policies.

American presidents can fill thousands of official posts in the executive with their own appointees, many of whom come from business or academia. In France, governments rely on perhaps the best-trained civil service in the world: the graduates of the sadistically competitive *Ecole Nationale d'Administration.* British special advisers ("spads", or "pads" as they are known in opposition) have emerged as a kind of compromise between those two systems. Many are unremarkable cogs in a machine. But the most senior are more influential than many front-line politicians. Sometimes, the real party is in the kitchen.

Part-time higher education

Open sesame

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Once mocked, the Open University might offer a model for others

FORTY years ago this month a radical innovation arrived in higher education. The new Open University (OU) began to admit students who did not have the qualifications to get into other institutions.

Back then, OU lectures delivered remotely by hirsute professors, who dryly enumerated the laws of thermodynamics on late-night television, appealed only to the most dedicated of older people, determined to better themselves in their spare time. Yet in recent years more school-leavers holding respectable qualifications have signed up. The OU expects to recruit many more when proposed reforms to higher-education finance are enacted. It might even emerge as a model for other universities that once looked down on it.

Part-time undergraduate students have long had a raw deal. They paid tuition fees even before full-time ones were obliged to do so in 1998, without access to the system of grants and loans for which their full-time counterparts are eligible. Nevertheless their numbers have risen rapidly: up by more than two-fifths in the decade to 2008-09 (the most recent year for which data are available), compared with an increase of a quarter in the number of full-time students over the same period. The government plans to introduce measures that would enable part-time students in England to borrow money to cover their tuition fees-which might encourage even more people to study part time, at the OU and elsewhere.

That would help ease the squeeze on full-time university places, which is expected to get ever tighter. The recent economic downturn, combined with a rise in the number of school-leavers passing exams, has seen demand greatly outstrip supply (restricted by the state, which still subsidises both students and universities).

Another impending reform will allow universities in England to charge full-time students fees of up to pound9,000 a year. A stampede to avoid the price hike is under way: on January 4th the Universities and Colleges Admissions Service reported that an extra 8,269 people had applied for a full-time place starting in September, up 2.5% on the previous year, which itself was a record. Increasing numbers of future undergraduates might choose to save cash by living at home while they study-as those taught by the OU have always done. Part-time students will be able to earn some money to ease their burgeoning debt burdens when not at their books.

At the OU, where students can get a degree for as little as pound3,660 in total, the number of undergraduates has increased by a quarter over the past decade, while the number of young students has doubled. They come not only for a cheap education but also for a convenient one. Bespectacled dons sporting dodgy double-knit jumpers no longer fill the airwaves; instead students can download lectures from iTunes (more than 30m items have been downloaded since the OU started putting material on the service in 2008).

More than 14,000 people use their mobile phones to access OU material each month; the university has 35,000 Facebook friends and 9,000 followers on Twitter. As it turns 40, the OU might turn out to offer a vision of the future.

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Britain's inflationary relapse

A test of nerves

Jan 6th 2011 | from PRINT EDITION

The surge in prices should eventually be tamed by spare capacity in the economy

Too late, mate

AS THE financial crisis took its toll and Britain slid into a severe slump in 2008 and 2009, one big worry was that the economy would also slip into deflation, exacerbating the difficulties of debt-laden households and firms. The scare was short-lived. Only a year since the recovery began, prices are surging rather than falling. Inflation, the scourge of Britain's economy until the 1990s, seems to have returned.

George Osborne has made many changes since he became chancellor of the exchequer last May but he has retained a central plank of economic policy: setting an inflation target and empowering the Bank of England to meet it. But the bank's credibility is starting to be questioned as inflation keeps on exceeding the 2% target for consumer prices. Since the middle of 2006, undershoots have become the exception, with inflation above 2% in all but a few months (see chart). Throughout 2010 it was at or above 3%, most recently moving up to 3.3% in November.

The inflationary relapse is set to get worse in early 2011. The main rate of VAT, a consumption tax, went up from 17.5% to 20% on January 4th. The rise is an essential part of Mr Osborne's plans to plug the budget deficit-but an unwelcome side-effect is that it will add to inflation. Because the tax increase is permanent, it is likely to be passed through to prices in full, whereas only about half the rise was passed on a year ago when VAT returned to its previously normal level of 17.5%, after being lowered to 15% to fight the recession.

There are other inflationary forces at work, too, as Asia's rapid economic growth stokes up commodity prices. Most food escapes VAT, but that will not spare consumers: global food prices have risen by 27% in the past year, according to *The Economist*'s commodity-price index. World oil prices have also jumped recently.

This unhappy confluence of upward pressures on inflation may well push the rate up to 4% by the spring. But the Bank of England believes that inflation will then subside as spare capacity opened up in the recession bears down on prices. In its most recent central forecast, in November, it envisaged inflation staying above 3% for the rest of this year before tumbling to the 2% target at the start of 2012, when the VAT rise drops out of the inflation calculation.

Confidence in that prediction has been undermined by repeated overshoots and the bank's forecasting lapses. In August, for example, its central projection was for inflation to run at 3% rather than 4% in early 2011. But this does not necessarily undermine the validity of the bank's view that the impulses pushing up inflation will prove short-lived, whereas the effect of spare capacity will be more enduring.

Just how far below its potential output the economy is operating is a vexed question. One of the malign effects of financial crises is that they impair productive capacity, but estimates of the damage vary widely. With unemployment at 2.5m-7.9% of the labour force, compared with 5.3% in 2007-there are clearly spare resources. The Office for Budget Responsibility (OBR), which is now in charge of the government's forecasting, estimated late last year that the output gap was 3.3% in the second quarter of 2010.

That margin of spare capacity should persist this year since growth is likely to be lacklustre, not least because Mr Osborne's austerity measures include harsh spending cuts and other tax rises starting in April, as well as this month's VAT increase. Although the economy has recovered more briskly than once expected, growing by 2.7% in the year to the third quarter of 2010, that pace will abate. The OBR is forecasting especially low growth in the first half of this year, and for GDP to rise by just 2.1% in 2011 as a whole-below its 2.4% estimate of the economy's trend rate of growth.

One worry is that inflation expectations have been rising. A household survey published by the Bank of England last month showed that people are expecting inflation of 3.9% over the next year, up from the 3.4% rate they predicted last August. But while business conditions remain tough and unemployment high it is difficult to see these elevated expectations actually leading to higher wages growth. Regular pay, which excludes bonuses, has picked up a bit but the most recent rate of 2.3% is still subdued by historical standards.

The Bank of England may have lost some credibility of late, but it has not lost the argument about spare capacity. As a fierce fiscal contraction gets under way, the current ultra-loose monetary stance remains reasonable. If the economy performs more strongly this year than expected, that should be the spur to start tightening, by raising the base rate from its all-time low of 0.5%.

Bagehot

A compromising position

Jan 6th 2011 | from PRINT EDITION

The first by-election of the Con-Lib era reveals deep confusion about coalition politics

COMMON sense is taken seriously in Oldham East and Saddleworth, a constituency which combines a gritty former mill town with pretty Pennine villages, and which on January 13th will hold the first parliamentary by-election of the coalition era. For David Cameron and his government of Conservatives and Liberal Democrats, there is some good news: lots of local voters say they associate coalition rule with a consensual form of decision-making, leading to common sense and moderation. There is also bad news: voters can be heard complaining that coalition government has led to broken promises. Confusingly, some of these happy and unhappy voters are the same people.

Start with the positive. Life under a coalition is a pleasant surprise, says Angela Fordham, landlady of the Golden Fleece pub in Denshaw, an affluent village of stone cottages set in rolling moorland. "It is not just one party saying what they want, the Lib Dems give a different perspective," she suggests. Ms Fordham is a loyal Conservative, yet this time she plans a tactical vote for the Lib Dems, whose local candidate came a close second behind Labour at the May 2010 general election.

The atmosphere of consensus extends to the campaigning. Down in the other half of the constituency, in the tough town of Oldham, the Conservative candidate Kashif Ali struggled manfully this week to bash his Lib Dem rival without attacking the coalition. Prodded to explain why he, rather than the Lib Dem, should win, he resorted to pleas of more-local-than-thou. Declaring himself "an Oldham lad, born and bred", he noted gravely that the Lib Dems' man is from Rochdale (all of five miles away).

For weeks Mr Ali has faced questions about whether his party leadership even wants to win the seat-a three-way marginal, at least on paper-or is more concerned about saving the Lib Dems from the humiliation of slipping from second to third place. On the Tory right, alarm bells rang when Mr Cameron said he wished Lib Dems in Oldham East and Saddleworth "well". They began clanging after press reports that Andrew Mitchell, the Tory international development secretary, had urged cabinet colleagues to let the Lib Dems win the seat. Senior Conservative ministers finally began arriving in Oldham on January 4th, with the prime minister expected a few days later, but there is little doubt that the Lib Dems were deliberately given a head start.

Some of the pressure for consensual campaigning is an accident of circumstance. The by-election was triggered by an outbreak of toxic local politics. Phil Woolas, the Labour MP who held the seat last May by just 103 votes, was later disqualified by a special electoral court for leaflets that peddled falsehoods about his Lib Dem opponent.

John McCann, a Lib Dem councillor, says locals are sick of partisan "sniping", and that this makes the coalition an asset on the doorstep. When different parties are forced to talk, "some pretty good decisions get taken", he argues. There are signs that Labour seems to accept this point, at least tacitly. Party bigwigs, including the leader Ed Miliband, now avoid using the word "coalition"; on campaign visits they talk instead of the "broken promises" of a "Conservative-led government", in which the Lib Dems are hapless stooges.

Now for the bad news: Labour's charge seems to resonate. On the streets of Uppermill, a handsome village in the Tame valley, even coalition supporters grumble about "disgusting" or "disappointing" Lib Dem promise-breaking. A national "poll of polls" published on January 5th put the Lib Dems on 11%, halving their share of the vote since the last election, with Labour on 40% and the Conservatives on 38%.

By-elections offer an imperfect lens through which to view national trends, especially in places with such tangled politics as Oldham, the scene of race riots in 2001 and still a sadly segregated town. But some broad conclusions can be drawn. In Westminster, the novelty of government by coalition may be wearing off: Lib Dem ministers swagger round Parliament as if born to power. But in the country at large, voters remain at sea with the new politics. For starters, ponder the oddity of praising the coalition for reaching commonsense decisions through compromise, while berating the parties in it for breaking pre-election promises. Given that the two ruling parties stood on different, rival manifestos, it would be quite a trick to craft common policies without someone conceding something.

The fog of political war

The problem is partly one of expectations. In countries where coalitions are the norm, election manifestos are like battle plans: they signal a party's hopes and intentions, but are not expected to survive the first moments of coalition combat. Especially in countries with proportional representation, voters cast their ballots with a view to maximising the dose of their favoured ideology or special interest in whatever government takes shape.

British voters were not ready for such politics before the last election. If they crafted a coalition with their refusal to hand victory to any one party, it was mostly an accident. Judging by the mood in Oldham and the surrounding moors, they are still not ready for a world of permanent, rolling compromise. Nor are many Tory MPs, who have filled the press in recent days with moaning about the kid-gloved treatment being afforded their Lib Dem colleagues. The uncharitable might respond: if Tories dislike being in coalition so much, they should try winning a majority.

A referendum on changing Britain's voting system is the next big electoral challenge, probably in May (when local elections are also due). That will open a whole new debate about representative democracy. Judging by the muddle in Oldham East and Saddleworth, the country is not remotely ready.

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Law and religion

Faith in courts

Jan 6th 2011 | from PRINT EDITION

As the season of goodwill fades, an old problem returns: religious disputes that draw in secular courts

PULSES rarely race in Shaughnessy, a genteel, old-money district of Vancouver where mature cedars shield mansions with giant drawing-rooms. But the splendid Anglican church there, which draws worshippers from across the city, is the centre of a dispute that arises in many countries: how should judges rule in religious rows? Usually such quarrels involve worldly goods and rival claims to be the true believers. They quickly raise theological issues normally settled in church councils, not the courtroom.

St John's Shaughnessy is the largest of four conservative parishes in British Columbia that have quit Canada's mainstream Anglican (Episcopalian) church in protest against the blessing of same-sex unions. They want to take their churches and their other property with them; their bishop is resisting.

In the latest twist in a long battle, in November, British Columbia's court of appeal ruled in favour of the bishop. Parish conservatives want to appeal. The issue is who runs the church-something that has riven Christianity since its founding. Liberals say the decision on same-sex blessing was taken according to the rules. Conservatives (many of them Chinese-Canadians) see it as an aberration: they argue that most of the 80m adherents to worldwide Anglicanism belong to churches that eschew gay unions.

The court's ruling will add to the billowing secular jurisprudence on the handling of disputes over religious assets. A similar row may be looming in the Church of England, where a bunch of Anglo-Catholics are turning to Rome in protest against women becoming bishops. Their leaders will be ordained as Roman Catholic priests on January 15th.

Such rows occur chiefly among Protestant Christians (Roman Catholicism has its own legal system), but also among Hindu and Sikh immigrants to the English-speaking world; they often arise when a religious community dissolves after the death of a charismatic leader. They feature more often in the New World than in Europe.

Marco Ventura, an Italian law professor, points out that most legal systems in continental Europe give such weight to the predominant church that rebels have little chance. The Paris municipality, which owns all church property there under France's *laicite* regime, has at least half-heartedly backed the mainstream Catholic church in its efforts to oust ultra-conservatives from a church near the Seine.

Even in Christianity's holiest places, the careful rules set by Ottoman and British colonial powers (mostly still in force) have failed to settle quarrels about the faith's real estate. In December the Palestinian Authority issued an ultimatum to three Christian churches whose squabbling has endangered the 500-year-old roof of the Church of the Nativity in Bethlehem.

As for the modern Anglo-Saxon world, the 44-page judgment handed down by the court in British Columbia gives a glimpse of the complexity involved. It mulls over some of the landmark judgments of America's Supreme Court on intra-Christian disputes and mentions a recent case in Britain involving two factions of a Hindu sect. It also cites a remarkable ruling by Britain's law lords in 1904 vindicating a tiny bunch of Protestant diehards in a property row, on the ground that predestination was indeed an immovable part of their church's doctrine.

Under the English-speaking world's common law, precedents, sometimes going back to medieval England, always play a role. But wherever religion is concerned, national taboos and traditions matter too. The United States is a special case because of the constitutional bar on either establishing a religion or restricting religious freedom in any way. In the Supreme Court's view, this means that American judges must strenuously avoid doing or saying anything that implies they are weighing the merits of a religious doctrine.

Judges in most other democracies are less constrained. They may not wish to speculate on the destiny of the soul or the nature of sin. But property disputes between religious groups often involve the interpretation of trusts, which may have been established for, say, "the propagation of the Presbyterian faith". In a typical case, two or more factions will claim to be the genuine representatives of that faith and denounce their rivals as impostors. Like it or not, interpreting the wishes of a trust's founder in tricky circumstances is a quintessential job for a judge.

In its most recent landmark ruling (a 1979 case known as *Jones v Wolf*) America's Supreme Court said a court could look into a church property dispute but only if it studied the relevant documents (trusts, title deeds and so on) in a "neutral" and non-religious spirit, as though it were looking into rows among philatelists or hikers. This modified an earlier ruling that said courts should simply respect a church's internal procedures and their outcome.

Meghaan McElroy, an American legal scholar, argues that a "neutral" approach allows a judge to respond fairly whenever a large dissident movement, insisting on a point of principle, emerges within a religious group and makes a claim to part of its assets. Conservative Episcopalian parishes in Virginia (some of the richest in America) have used that sort of argument as they try to retain their property after breaking away from their church's gay-friendly mainstream. The state's Supreme Court overturned the parishes' initial victory, on technical grounds, in June 2010.

In 2009 London's High Court found itself considering rival claims to the assets (worth perhaps pound25m) of a Russian Orthodox church and diocese in Britain. One lot of believers had realigned themselves to the Istanbul-based Ecumenical Patriarchate; a more conservative grouping remained loyal to Moscow. The trust deed said the assets could be reassigned if "any doubts may arise relating to the continuity of the life of the diocese". The Istanbul-leaning faction argued for a broad interpretation of this clause, saying that the community's original liberal and cosmopolitan atmosphere had been compromised. But the judge agreed with the Muscovites, who argued that no such doubt had arisen: services were continuing as normal.

At least the judge had something in writing. Even harder are questions of "implied trust", created by past gifts of money and effort. The British Columbia conservatives, in a tactic that is typical of such cases, argue that the assets now enjoyed by the four dissident parishes were bequeathed by people who believed in the principles of traditional Anglicanism, in other words as part of an implied trust.

The court wrestled with that argument but ruled that the "implied trust" involved loyalty to the Anglican church's regular structures (even with their newly gay-friendly line). Moreover, the judgment accepted the contention that same-sex unions were not a fundamental issue of Anglican doctrine. That is an interesting point for theological dispute, but marshy ground for secular courts to tread on. Yet as long as quarrelsome religious groups keep resorting to the law, judges can hardly avoid getting dragged in.

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Global climate

Tough little girl

Jan 6th 2011 | from PRINT EDITION

La NiÃ±a proves as disruptive as her better-known brother


La NiÃ±a's unwelcome Christmas gift

EL NIÃ‘O, a periodic sloshing of warm water from west to east across the Pacific, gets its name-"the boy child"-because it is around Christmas that it warms the water off Peru. It is now understood to have far wider effects, leading to characteristic patterns of temperature, rainfall and drought around much of the world. El NiÃ±o's female counterpart, La NiÃ±a-a cooler sloshing from east to west-is less well known, and less frequent. But it too can impose a distinctive pattern of weather worldwide.

A moderately strong La NiÃ±a began around the middle of 2010 and is now at its peak; it is very likely to last another couple of months, and conceivably into the middle of this year. It can be blamed for floods in Australia, which are typical of La NiÃ±a in their location, if not their intensity, and in the Philippines, where ten people had died as of January 4th. But these are far from the first symptoms. The torrential rains which killed hundreds in Venezuela and Colombia in November and December had the little girl's fingerprints on them, too. The spectacular inundation in Pakistan last August also fits the pattern.

In Pakistan things may have been particularly bad because this La NiÃ±a, unlike many, turned up straight after an El NiÃ±o, which tends to leave temperatures in the Indian Ocean high. Hotter air holds more water vapour, and so can produce more rain. La NiÃ±a rainfall patterns souped up with post-El-NiÃ±o heat help explain why the Pakistan floods were so devastating, says Kevin Trenberth of America's National Centre for Atmospheric Research. Warmer-than-usual seas off Australia may account for the scale of the flooding there, too.

Other things being equal, this amplification due to warming will worsen floods associated with either troublesome sibling in years to come. Don't bet on other things being equal, though. Whereas some models suggest the sloshings of the Pacific will get stronger in a warmer world, others say that they will weaken; the spatial pattern of the effects may change too.

More immediately, in months to come the current La NiÃ±a could do more damage. According to a study by the Red Cross/Red Crescent Climate Centre and the International Research Institute for Climate and Society, further heavy rain may be expected in the north of South America and in south-east Africa in the next two months. The devastating Mozambique floods of February 2000 occurred when La NiÃ±a was near her peak.

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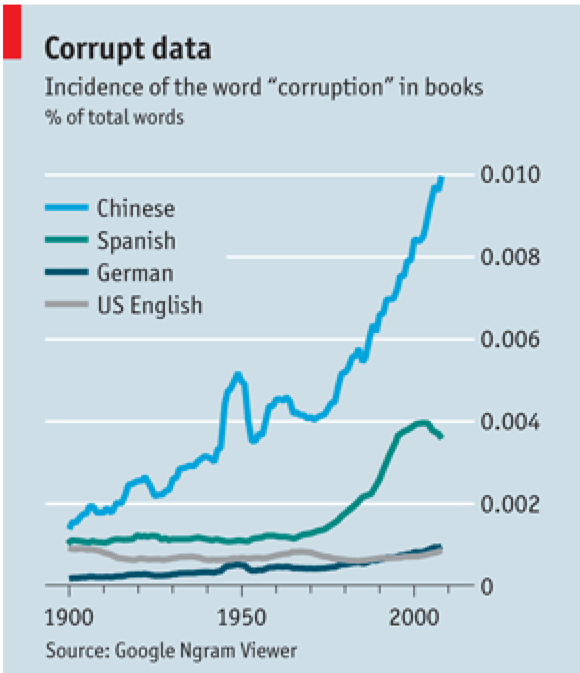
International rankings

Wrong numbers

Jan 6th 2011 | from PRINT EDITION

Global league tables are interesting, but not always reliable



MEASURING things is hard. Counting mentions of them is easy. Google's new search tool Ngram Viewer lets users find out how often a word occurs in the millions of books the firm has scanned. It also helps analyse the salience of abstract ideas-corruption, say-in different languages and places (see chart).

Lots of new numbers will be grist to the mills of those who compile international rankings. The hunger for crunchy comparisons of everything from venality to brainpower is huge and growing, not least among media such as this newspaper. It is tempting to try and pin ideas down by turning them into figures. Such measures can be handy. But they have serious flaws.

The quality of economic statistics is often dubious in developing countries, for example. Figures are often only rough estimates and revised often and extensively. Inferences are risky. The latest version of the Penn World Tables, the best source for such numbers, has Equatorial Guinea's GDP growing by 4% annually between 1975 and 1999. The 2002 version put the rate at minus 2.7%. The country may thus have been sub-Saharan Africa's slowest-growing economy-or the second-fastest.

At least teachers have drilled generations of economics students in the limitations of GDP data, even if the public and politicians give them undue weight. But experts too can be fooled by "synthetic" indices combining several related measures into a single number which are often used to back broad claims. For instance, an index may rely on data on a few rather narrow items, such as the number of convictions for certain crimes, but claim to measure something broader, such as the quality of a country's legal system.

Rankings based on perceptions are particularly problematic. One example is the World Bank's survey on the quality of developing countries' infrastructure. In places where potholes and dirt tracks are the norm, the people interviewed may be so used to them that they do not see poor roads as much of a problem. Those accustomed to good roads may grumble more loudly about much smaller shortcomings.

Combined indices can also be oversensitive to updates. A recent study of the United Nations Development Project's widely cited Human Development Index (HDI) by the economists Hendrik Wolff, Maximilian Aufhammer and Howard Chong finds that small revisions to the data that go into the index can substantially alter a country's position in the rankings.

Part of the problem is that few people pay attention to margins of error. As a result, even differences that are too small to be statistically significant are used to rank countries. Unsurprisingly, such rankings change with every minor revision. A detailed internal evaluation of the World Bank's influential Doing Business index in 2008 found that because countries were given different ranks despite fairly similar index values, small data revisions could send them shooting up or down the indices of business-friendliness.

This would matter less if the rankings were used as broad guides. But phoney precision (among users if not producers of these data) is endemic. The UNDP puts countries into three categories based on their HDI number: low, medium, and high

human development. Mr Wolff and his co-authors find that the probability that any country is in the wrong category is as high as 45%. Yet Merck, a pharmaceutical company, bases local prices for some medicines on a country's HDI category. Some even want a country's HDI number to determine the effort it has to put into reducing carbon emissions.

Rankings based on large global databases such as Google's will also have their share of problems. In the case of the Ngram Viewer, the body of books in different languages may not be comparable, for instance.

Yet few will grumble as the number and scope of international rankings mushroom. Many agree with Lord Kelvin, the 19th-century physicist after whom the unit of absolute temperature is named: he reckoned that measuring something provides additional knowledge. And so it does, in the physical sciences. But where humans are involved, more data sometimes yield less truth.

Bioterror, Africa and security

A bug's life

Jan 6th 2011 | *LONDON AND NAIROBI* | from PRINT EDITION

How safe are health laboratories in developing countries?

Prevention is better than cure

AFRICA is home to the world's nastiest diseases, such as the Ebola and Marburg viruses, and to laboratories that study them. Could that be a tempting target for terrorists? Late last year Senator Richard Lugar and a team of Pentagon arms-control experts visited Burundi, Uganda and Kenya. What they found prompted alarm, and calls for big spending on lab security.

For example, a Kenyan research lab housing anthrax, Ebola and Marburg backs onto a slum and has low, easily scaled cement walls. African technicians have to use large samples of the dangerous viruses for their research because their equipment is antiquated. Better safety could be part of the long-standing initiative Mr Lugar and his fellow senator Sam Nunn developed in 1991 to secure and destroy former Soviet nuclear, chemical and biological stockpiles.

Scott Dowell of the Centres for Disease Control and Prevention in Atlanta agrees that Ugandan and Kenyan labs need more money for security. But so too do many research facilities in other poor countries. Richard Lennane of the Biological Weapons Convention adds that boosting security is not just about fences and guards. Where do workers come from? Who asks questions if a lone colleague starts regularly working late?

Sceptics say Mr Lugar is scaremongering abroad for political gain at home. He may be right, as he complained in Kenya, that pathogens are easier to package than nuclear materials. But "weaponising" them is still difficult. Many organisms mooted as terror agents are tricky to handle and hard to make into weapons. It is unlikely that Somalia's al-Shabab, the most threatening terrorist group in east Africa, or organised criminals, have the technical ability to do that.

A better reason to spend more on laboratory security may be to stop not wrongdoers but accidents. A British foot-and-mouth outbreak in 2007 probably stemmed from laboratory sloppiness. Moreover, the things that enhance a laboratory's security will also improve its ability to diagnose and handle outbreaks of natural diseases. Asian scientists played a big role in monitoring outbreaks of SARS and bird flu. Strengthening their African counterparts adds a vital link in the chain.

A planned new outfit, the Global Biological Resource Centre Network, would calm Mr Lugar's fears and benefit Africa too. But the rich world also needs to avoid complacency. Those anthrax attacks in America in 2001 were 100% home-grown.

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Social media

Is Facebook really worth $50 billion?

Jan 6th 2011 | *SAN FRANCISCO* | from PRINT EDITION

And will its new financing scheme fall foul of regulators?

IN 2009 *Rolling Stone* described Goldman Sachs, an investment bank, as "a great vampire squid" that likes to stick its "blood funnel" into anything that can make it money. This week the squid inked yet another high-profile deal. Together with Digital Sky Technologies (DST), a Russian group, Goldman invested a total of $500m in Facebook, valuing the world's most popular social network at a whopping $50 billion. The bank is also planning to set up a fund it will manage that will pump up to $1.5 billion more from wealthy investors into the company.

For Facebook, the deal provides a mountain of extra cash to invest in things such as new data centres and acquisitions. It gives it fuel for further growth without the hassle of listing its shares. For Goldman, the transaction represents an opportunity to stick its "funnel" into an internet firm that makes investors drool. As well as benefiting from any further appreciation in Facebook's value, the bank plans to suck up fees for managing the new fund. And it is no doubt hoping that by cosying up to Facebook's top brass it is boosting its chances of leading an eventual initial public offering (IPO) of the company's stock.

News of the deal has sparked vigorous debate. Facebook's implicit value has risen fivefold since mid-2009, but sceptics doubt that a firm whose business model is unproven is worth more than established media giants such as Time Warner (see chart).

Since Facebook is not obliged to divulge financial information, it is hard to know for certain whether Goldman and DST, which already owned a sizeable chunk of Facebook stock, are overpaying. But Facebook bulls argue that the network's sheer scale is proving irresistible to advertisers. Debra Aho Williamson of eMarketer, a research firm, notes that Facebook has even begun to attract notoriously conservative-and deep-pocketed-advertisers such as Procter & Gamble.

The company is also starting to look more and more like a natural monopoly. MySpace, which used to dominate the social-networking arena, has come to look like My Empty Space. It is rumoured to be about to make yet more cuts to its workforce. And networking upstarts such as Twitter, which has also seen its valuation soar (to $3.7 billion), have revenues that are a mere fraction of Facebook's, which are said to have hit $2 billion last year.

Still, at $50 billion Facebook looks rather expensive. If its sales really are $2 billion a year, that implies that Goldman and DST are paying 25 times current revenues for their shares. That would be a breathtakingly steep multiple, even by the giddy standards of the start-up world.

Squid's in

Moreover, Facebook has nowhere near as robust an advertising model as, say, Google, whose search-related ads are served up to users when they are often on the point of making a purchase. Much of Facebook's revenue comes from low-end display advertising. And though it will benefit from marketers' growing interest in word-of-mouth promotion, the company will have to scrap for those dollars with traditional media brands, whose rich content makes them attractive venues for social-media advertising too.

In spite of this, investors are still falling over one another to get their hands on Facebook's shares-and Goldman is keen to help them, so long as they agree to abide by certain rules. Clients considering signing up to its proposed Facebook fund are reportedly being asked to commit at least $2m each to it and to hold on to any shares they receive until at least 2013.

A different problem for Facebook and Goldman is that Goldman's planned fund could fall foul of the Securities and Exchange Commission (SEC). On January 3rd SecondMarket, a broker-dealer in private-company shares, said it had been asked by the SEC for data about pooled investment funds formed to buy private-company stock-precisely the kind of vehicle that Goldman has in mind for would-be Facebook investors.

In recent months several other financial institutions have formed similar special-purpose vehicles that invest in private companies' stock, piquing the SEC's interest. This has prompted predictions that regulators may end up treating such entities not as a single shareholder, but as a collection of individual investors. That would have important implications for the companies in which they invest. An SEC rule requires private firms with 500 or more shareholders of record in a given

type of stock to publish quarterly accounts and audited financial statements. Faced with such obligations, most firms seek a public listing. This rule was one of the reasons that Google ultimately decided to go public in 2004.

Having to go public now would be a nightmare for Facebook and Mark Zuckerberg, its founder and chief executive, who is said to be keen to put off an IPO for as long as possible. The firm reportedly had fewer than 500 shareholders at the end of last year, including employees and venture capitalists, so it is no doubt hoping to avoid having its arm twisted.

Facebook and Goldman seem to have the letter of the law on their side. Joseph Grundfest, a professor at Stanford Law School and a former SEC commissioner, points out that the rule in question states very clearly that a fund such as the one Goldman has in mind should be treated as a single shareholder. "If someone says Goldman is violating the law, then they obviously don't know the law," he says. Were regulators to interpret the rule in any other way, it would have far-reaching consequences for, say, the venture-capital industry, in which funds with multiple investors routinely take stakes in private firms.

However, some observers say that the SEC may be tempted to conclude that the new breed of special-purpose vehicles being created by the likes of Goldman have been set up specifically to get around the 500-shareholder rule. They have the potential to include a much wider range of investors than a typical venture fund, and may attract heightened scrutiny.

Regulators have a duty to protect investors and weigh the concerns of companies that wish to remain private. It is a delicate balancing act. But anyone who invests in a market this frothy must surely realise it is also risky. Meanwhile, Goldman and the other banks which hope to turn these vehicles into a big business should consider friending some good lawyers.

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Social media in Indonesia

Eat, pray, tweet

Jan 6th 2011 | *JAKARTA* | from PRINT EDITION

Social-networking sites have taken off in Indonesia. Who will profit?

My avatar is much funkier

WHAT does the most populous Muslim nation do in its spare time? Increasingly, it swaps gossip online. Indonesia is now the world's second-largest market for Facebook and the third-largest for Twitter, according to several web research firms. For industry insiders, however, the most exciting statistic is not how many Indonesians use social media, but how many still don't. Of 230m or so Indonesians, fewer than 20% are connected to the internet.

Foreign firms see untapped potential. Facebook doesn't even have an office in Indonesia, yet it has grown like crazy, to 30m users. In May last year Yahoo! ventured into this fizzing market by buying Koprol, a location-based social network. Indonesian culture seems particularly receptive to online socialising. People love publicity, don't fret much about privacy and gleefully follow trends. "Everything is about friends and location," says Andy Zain, the founder of MobileMonday Indonesia, a networking forum.

The biggest question for everyone is how to make money from Indonesians' interest in connecting with one another. Michael Smith, who led Yahoo!'s acquisition of Koprol, says the payoff will take time: "I always tell people that the volumes and willingness of customers to pay in Indonesia [are] so low that you can't expect gargantuan revenues from it today."

Western firms are only just beginning to grasp the eccentricities of the Indonesian social-media market. Thanks to years of price wars between Indonesia's three major telecommunications companies, mobile contracts in the country are dirt-cheap. For Indonesians living in North America, it is often cheaper to buy an Indonesian SIM card and roam with it than it is to sign up for a local plan.

Phones are cheap, too: the country is flooded with Chinese handsets costing only $30-40. Indonesia is also one of the largest markets for Research In Motion (RIM), the maker of BlackBerrys. Indonesians typically connect with each other via mobile devices, not personal computers.

Facebook and Google make money in North America and Europe from display advertising, but this is much harder in Indonesia. Few locals have credit cards or bank accounts, making it hard for them to click on a link and buy something. For large purchases online, payment is generally made by bank transfer. Social-media firms are investigating whether they can tap the microtransactions market-say, by offering virtual currencies or goods that users can use as barter-though forced partnerships with local telecoms firms threaten the profitability of such schemes.

So far, only one firm has cracked the payments nut. Inspired by China's QQ and Grameen Phone of Bangladesh, Mig33, a firm whose main product is a mobile social-networking application, has set up a virtual economy. Some 4,000 merchants in 150 countries sell "credits" to users, who then can spend them online: sending messages to friends, playing games, or sending virtual gifts. The firm has raised $34m in funding since its inception in 2005. Its founder, Steven Goh, says it will post profits this year. Indonesia is its largest market.

When hobnobbing in cyberspace, Indonesians are especially likely to use avatars rather than real pictures of themselves, says Mr Goh. "Indonesia is a moderate Muslim country where people are creating new virtual identities completely different [from] their real identities," he explains. Users with black eyes and black hair, say, may create virtual personae with grey eyes and blond hair.

This is common elsewhere in East Asia and in the Middle East, too. But Indonesia is a special case, reckons Mr Goh: its social networks freely integrate both real and imagined selves. The archipelago could prove a useful test market for tech firms seeking to enter the wide-open and barely understood social-networking markets of the rest of Asia.

European tyremakers

Bouncing back

Jan 6th 2011 | *HANOVER* | from PRINT EDITION

Pirelli and Continental shrug off their chequered past

A COUPLE of decades ago two tyremakers, Pirelli of Italy and Continental of Germany, were locked in a takeover battle. A merger would have brought them close to the size of the world's big three tyre firms: Bridgestone, Goodyear and Michelin. It didn't happen. Continental fought off Pirelli and they went their separate ways. Both have had a bumpy ride.

Tyremaking is a dependable, if unglamorous, business. Even when recession bites-as it has twice since 1991-motorists still need replacement tyres, which account for 75% of revenues. But that steady cashflow tempted both Pirelli and Continental to veer off track.

Pirelli jumped into communications and property. Its boss, Marco Tronchetti Provera, became chairman simultaneously of Pirelli and Telecom Italia as well as deputy chairman of Olivetti, a computer firm. It was only last year, as Pirelli hived off its property and broadband businesses, having shed cables and Telecom Italia some years back, that it became a straightforward tyremaker again.

In 2011, for the first time in 20 years, Pirelli will supply Formula 1 racing teams with tyres to burn up at high speed. Mr Tronchetti describes this as "the best possible marketing tool".

Continental has diversified, too, adding brakes and interior components to its Contitech partsmaking division (see chart). But in 2007 it overreached by paying euro11 billion ($15 billion) for Siemens VDO, the car-electronics division of Siemens. A year later Schaeffler, a family-owned maker of ball-bearings, tried to take over Continental with a low bid, but because of the financial crisis attracted a flood of shares. Maria-Elisabeth Schaeffler and her clan, once reckoned to be among Germany's ten richest, ended up owning 75% of Continental, instead of the 50% they wanted, and owing their banks euro12 billion.

Automotive experts reckon a full merger of Continental and Schaeffler makes little sense. Yet the two companies are bound by a web of debt. Much of their cashflow goes to paying it off rather than investing in the future. It is some consolation that the automotive industry is enjoying a boom, and that Schaeffler can defer payments on half of its debt until 2014.

Pirelli reckons its narrower focus on tyres, especially premium ones, will prove an advantage as it expands in emerging markets. Half of its business is already in the emerging world-"more than any other of the top five tyremakers", says Francesco Gori, head of Pirelli's tyre division. Its salvation during the recent crisis was Brazil, where it is the leading brand. Pirelli's worldwide sales dropped by only 2.9% compared with the industry-wide average of 10%, Mr Gori says.

Pirelli was one of the first into China when majority foreign ownership of tyre factories was allowed in 2005. In November it signed joint-venture agreements with Russian Technologies and Sibur Holding of Russia to upgrade a tyre plant (for premium and winter tyres) and to reorganise a truck- and farm-tyre plant which employs 12,000 people. Other tyre companies regard this as "brave", given the difficulty of doing business in Russia.

Pirelli will not yet touch India: the market for premium tyres is tiny, and the wheel sizes of commercial trucks and of the Tata Nano (a super-cheap car) are too small, says Mr Gori. Continental, in contrast, first came to India in 1974 and wants to expand. The firm also has a tyre plant in China, where it competes with 300 local producers as well as the big three. "Even Michelin and Bridgestone are small in China," says Hans-Joachim Nikolin, a board member at Continental. The firm has pioneered low-cost manufacturing in regions such as central Europe.

Which company is best-positioned for the future? Pirelli has the best brand and is the favourite of many car enthusiasts. Apart from sidelines such as branded clothes, latex mattresses and a calendar featuring unclad women, it is focused on making tyres. Continental, which responded to the downturn by diversifying, finds the tyre business is carrying its other divisions. But the world may change.

High demand for natural rubber has driven up prices. Tyre-producers are seeking alternatives, including recycling old tyres and using more synthetic material. But even today natural rubber makes up around 14% of car tyres and 27% of lorry tyres. Pirelli and Michelin, which sell many lorry tyres, are most exposed, points out HSBC, a bank. Until hastily planted rubber trees mature, the advantage may lie with Continental rather than with its slimmed-down former suitor.

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Starbucks v Kraft

A double shot of discord

Jan 6th 2011 | from PRINT EDITION

The kings of coffee brawl with the monarchs of macaroni

STARBUCKS once seemed so unstoppable that the *Onion*, a satirical paper, joked about a new Starbucks opening in the restroom of an existing Starbucks. Yet by January 2008, when Howard Schultz, the coffee chain's most effective boss, returned as chief executive, it was rapidly declining. Mr Schultz closed stores, shed staff, slimmed the supply chain and arrested Starbucks's slide. In fiscal 2010 the firm's operating margins rebounded to 13.8%, the highest in its 40-year history.

One of the problems Mr Schultz found, after a review of the business, was in the way Starbucks-brand coffee was sold in supermarkets. The so-called consumer-packaged goods (CPG) business is handled by Kraft, America's biggest food company, which is best known for having mastered the art of mixing macaroni with cheese.

Following an agreement in 1998, Kraft sells, markets and distributes bags of Starbucks coffee. Mr Schultz told Kraft he was dissatisfied. Kraft acknowledged the complaint, but, according to Starbucks, failed to act because it was focused on the takeover of Cadbury, a maker of superior British sweets such as Creme Eggs.

By the spring of last year, both sides realised that their partnership was broken. Starbucks says it offered Kraft $500m to give back the CPG business. As part of the proposed deal, it still wanted to supply capsules for Tassimo, Kraft's single-portion coffee machines. Kraft initially agreed to the buy-out offer, but then changed its mind and demanded another $200m, according to Starbucks. Kraft disputes this account. It claims that Starbucks offered $750m to buy out the business in August. It adds that it rejected the offer. A fair price would be $1.5 billion, Kraft says.

In October Starbucks told Kraft that it was in material breach of their agreement. Unless the matter was resolved within 30 days, Starbucks said, all their agreements (including the one on Tassimo) would end by March 1st and Kraft would get nothing. The alleged breaches include Kraft's failure to involve Starbucks in sales planning, to provide detailed budgets and to obtain approval for advertising. Starbucks says Kraft also violated an exclusivity deal by promoting its own premium coffee.

Kraft says all these alleged breaches are baseless. It says Starbucks brewed them up to give itself a pretext for grabbing back the best part of its business (its coffee shops are still sluggish) without paying for it.

Mr Schultz declared war. In November he announced that Starbucks was ending its relationship with Kraft unilaterally. On November 29th Kraft initiated an arbitration proceeding to challenge this move. Ignoring the arbitration, Starbucks said a couple of days later that from March onwards it would distribute its packaged coffee through Acosta, a marketing firm. (In 2009 Acosta helped Starbucks to launch Via, a popular brand of instant coffee.)

On December 6th Kraft sought a preliminary injunction against Starbucks in a District Court of New York, for allegedly violating the terms of their agreement. The hearing of the injunction is tentatively scheduled for January 27th. Kraft says that it played a central role in the success of Starbucks's packaged-coffee business, which grew tenfold during the course of their partnership. Starbucks retorts that it could have grown faster if someone else had handled it.

Even so, it will be tricky to prove material breaches of the agreement, so Starbucks will probably have to pay to end it. Kraft stands to lose not only a lucrative business but also some "category captaincies". Each large American retailer elects a product-category captain who is closely involved in how its sales are managed. Kraft is category captain in more than 60% of the supermarkets in which it distributes coffee. Acosta will soon be vying for this profitable honour.

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Music videos

From cash cow to cachet

Jan 6th 2011 | from PRINT EDITION

The fall and rise of the music video

EVERY two months the British Film Institute hosts a celebration of new music videos. "Bug" draws a keen, arty crowd-demand for tickets greatly exceeds supply. Competition for screen time is fierce, too: David Knight, who picks the videos, receives 150-200 submissions for each show. A once tawdry media product has become fashionable.

At its commercial peak, in the late 1980s and early 1990s, the music video simply gushed cash. It was essentially an advertisement for recorded music, supplied free by a record company to a channel-MTV-for which viewers paid, and which also showed actual advertisements.

But then CD sales collapsed. Record companies slashed budgets and stopped giving away videos. MTV found a sideline in reality television, which has gradually taken over its schedule, particularly in America. Its flagship channel has all but abandoned music videos.

They found a home on YouTube, among clips of rambling teenagers and off-message politicians. That was fine for consumers, who could call up videos whenever they liked. It was not so good for media firms, which watched a torrent of revenue turn into a trickle. YouTube runs few ads, for not much money. Google, which bought the outfit in 2006, has yet to announce that YouTube has turned a profit. Yet the music video is quietly reviving.

One reason is that production costs have fallen even faster than budgets. High-definition cameras, editing software and computer-processing power are all much cheaper. Jill Capone, head of marketing for Universal Motown Records, says she might spend a mere $3,000-5,000 on a video to promote a new artist, or $75,000 for an established act. "Gone are the days of the $600,000 video," she smiles.

What does a lady have to do to get a little attention these days?

Another reason is that music videos have found more lavish digital homes. MTV's popular website plays music videos as well as television clips. Sony Music and Universal Music have invested in Vevo, a website that showed 261m music videos to 50m viewers in America and Canada in November, according to comScore. Selectivity is key to its success. On YouTube, says Rio Caraeff, Vevo's chief executive, a viewer might proceed from a slick Lady Gaga video (see above) to a grainy home movie of cats dancing to a Lady Gaga soundtrack. On Vevo viewers swim in a pool of professional content. That consistency appeals to advertisers. Mr Caraeff says advertising rates are comparable to those of broadcast television (that is, roughly $20-30 per 1,000 viewers), though Vevo runs far fewer ads than a television network.

The average visit to Vevo lasts 15 minutes. In a bid to drive that figure up, the website is pushing "channels", which play music videos organised by genre and mood. In short, the website is coming to resemble television. It is also moving to the television set. Many Americans who buy high-end TVs this year will be able to play music videos from Vevo or YouTube. They may tolerate more ads on the big screen than they do online.

Although the economics of the music video are improving, the fast-money days are over. But, oddly, that is a lure for some. When music videos became economically marginal, they acquired artistic credibility. Up-and-coming directors are often keen to make music videos. It raises their cachet and helps them move into TV ads, where the real money is.

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Air travel

The misery of flying

Is more regulatory reform the answer?

The glamorous jet-setting lifestyle

THE blizzards that grounded year-end flights in Europe and America, leaving thousands of passengers stranded at the airport or even on the runway, completed an *annus horribilis* for the air traveller. Have passengers ever been less satisfied with flying?

The disruptions seem endless, from snowstorms to Icelandic eruptions. Fares keep jumping: airlines have just added another surcharge to cover higher fuel costs. Airlines keep finding new things to charge for, from pillows to checked-in luggage. The staff are demotivated, even surly. Security grows ever more intrusive.

The misery of flyers has revived demands for better regulation (and prompted the International Air Transport Association to caution against a hasty reaction to what was, after all, unusually bad weather). Britain's transport minister wants fines to be imposed on airports that were unprepared to respond adequately to the snow. In America there are calls to speed up the extension of laws prohibiting domestic airlines from keeping passengers waiting on the tarmac for more than three hours to international carriers as well.

By chance, the mass grounding of aircraft coincided with the death on December 27th of the pilot of airline deregulation. Alfred Kahn was the head of America's Civil Aeronautics Board, and the driving force behind the deregulation of air travel that took effect in 1978, under President Jimmy Carter. His reforms were subsequently copied to varying degrees in much of the rest of the world.

Previously, Uncle Sam had to approve every route flown (across state lines), every fare charged and every new entrant to the industry. The results were limited competition, little innovation and sky-high prices.

The unleashing of market forces has produced far more flights, to far more destinations, at considerably lower fares than would have otherwise been the case. Competition has spurred innovations such as hub-and-spoke routing systems and new low-cost carriers such as Southwest Airlines and JetBlue in America and easyJet and Ryanair in Europe. Several studies have found that the benefits to consumers of deregulation have amounted to billions of dollars each year.

Nonetheless, a case can be made that deregulation is to blame, at least in part, for the current misery of so many flyers. Air travel has become more competitive and efficient, but is subject to significant market failures. One is that many passengers, especially infrequent travellers, know very little about the quality of service of any given airline. So they are disproportionately influenced by the ticket price, says Kevin Neels of Brattle, a consultancy. The internet accentuates this: a ticket that costs only a few dollars more may not show up on the first page of an online search.

Airlines have little financial incentive to take into account the cost to passengers of, say, delays. Instead, they cram their planes to bursting, taking the view that every empty seat is a bundle of money flying away. When freak weather strikes, they have little spare capacity to replace cancelled flights. So it might make sense for regulators to impose some cost on airlines when passengers are stranded for a long time-so long as the cost is not too great.

Mr Neels also worries that airline bosses' financial incentives make them do things that yield short-term profits but risk harming their firms' reputations. They cut costs by skimping on service, for example. They may even economise on safety. There is concern among regulators that some pilots are now paid dangerously little.

Airlines are operating in a mostly deregulated market, but they are using infrastructure that is largely government- owned and heavily regulated. Even as the number of flights and flyers has soared, the airports that must accommodate them have been neglected. Market forces have not been allowed to allocate access to scarce infrastructure more efficiently. A system of peak pricing for landing slots, for example, would ease congestion in good weather and bad.

Instead of market forces, there is massive political interference. Gleaming but empty airports are built in places represented by powerful politicians. Security checks are excessive because no politician wants to be blamed if a terrorist gets through. New technology that would allow more planes to fly but put air-traffic controllers out of work is blocked by unions. "The aviation system is collateral damage to the political problems we are seeing in all mature democracies," says Michael E. Levine of New York University, a longtime proponent of deregulation.

When bad weather strikes, market forces could determine which passengers and flights should go first, says Mr Levine. For example, airlines could bid for the right to be prioritised in the event of an airport's capacity unexpectedly being cut. Passengers would then be able to choose (and pay more for) an airline that is less likely to leave them stranded for long. That would reveal the currently hidden costs of congestion and increase the likelihood of airlines competing on service quality as well as on price. For now that seems politically impossible. But as Alfred Kahn showed, what seems terrifyingly radical today can seem normal and sensible tomorrow.

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POSCO's Indian steel project

Greens v jobs

Jan 6th 2011 | *DELHI* | from PRINT EDITION

How investor-friendly is India?

INDIA needs steel, ports and investment. POSCO, a South Korean steel giant, wants to invest 545 billion rupees ($12 billion) to build a steel plant with a port in Orissa, a poorish state with lots of iron ore. It would be the single biggest foreign investment in India ever, and yield 12m tonnes of steel a year. Yet for five years the plan got nowhere.

Farmers, fishermen, poor tribespeople and forest activists are fiercely opposed. They argue that the likely benefits, such as 17,000 jobs, would be outweighed by ecological damage and disruption to local lives.

On January 3rd an environmental panel set up by the government approved an initial stage of the project, to produce 4m tonnes a year on a 4,000-acre (1,600-hectare) site. Yet POSCO's people are not cheering. They are waiting for India's environment minister, Jairam Ramesh, to give a final ruling. Last month Mr Ramesh said he remained "uncertain". He seems unswayed by the steel minister, Virbhadra Singh, who grumbles that if India approved investments faster it would produce an extra 36m tonnes of steel a year.

Last year Mr Ramesh blocked another big venture, by Vedanta, a British firm, which had sought for five years to mine bauxite in the forested hills of Orissa. Vedanta, he ruled, had flouted environmental laws. But the POSCO project is different. It would be built mostly on coastal scrubland, not forest. And it would fit comfortably with India's wish for closer economic ties with its East Asian allies, South Korea and Japan.

Schumpeter

The tussle for talent

Jan 6th 2011 | from PRINT EDITION

The best companies are obsessed by "the vital few"

PLATO believed that men are divided into three classes: gold, silver and bronze. Vilfredo Pareto, an Italian economist, argued that "the vital few" account for most progress. Such sentiments are taboo today in public life. Politicians talk of a "leadership class" or "the vital few" at their peril. Schools abhor picking winners. Universities welcome the masses: more people now teach at British ones than attended them in the 1950s.

In the private sector things could hardly be more different. The world's best companies struggle relentlessly to find and keep the vital few. They offer them fat pay packets, extra training, powerful mentors and more challenging assignments. If anything, businesses are becoming more obsessed with ability.

This is partly cyclical. Deloitte and other consultancies have noticed that as the economy begins to recover, companies are trying harder to nurture raw talent, or to poach it from their rivals. When new opportunities arise, they hope to have the brainpower to seize them. The acceleration of the tussle for talent is also structural, however. Private-equity firms rely heavily on a few stars. High-tech firms, for all their sartorial egalitarianism, are ruthless about recruiting the brightest. Firms in emerging markets are desperate to find high-flyers-the younger the better-who can cope with rapid growth and fast-changing environments.

Few people know more about how companies manage talent than Bill Conaty and Ram Charan. Mr Conaty led the human-resources department at General Electric (GE) for 14 years. Mr Charan has spent the past few decades offering advice to some of the world's leading bosses. Their recent book, "The Talent Masters", provides a nice mix of portraits of well-known talent factories, such as GE and Procter & Gamble (P&G), along with sketches of more recent converts to the cause.

"Talent masters" are proud of their elitism. GE divides its employees into three groups based on their promise. Hindustan Unilever compiles a list of people who show innate leadership qualities (and even refers to them throughout their careers as "listers"). Talent masters all seem to agree on the importance of two things: measurement and differentiation. The best companies routinely subject their employees to "reviews" and "assessments" of one sort or another. But when it comes to

high-flyers they make more effort to build up a three-dimensional picture of their personalities and to provide lots of feedback. Jeff Immelt, GE's boss, prides himself on his detailed knowledge of the 600 people at the top of his company, including their family circumstances and personal ambitions. Hindustan Unilever's managers build detailed dossiers on their listers. Novartis, a drug firm, asks high-flyers to produce "leader plans" and share them with their mentors and contemporaries.

They single out high-flyers for special training. GE spends $1 billion a year on training, much of it on its elite management college in Crotonville. Novartis sends high-flyers to regular off-site training sessions. Training courses are clearly powerful motivators. But they also help to form bonds between the future leaders of far-flung organisations.

Even more important than off-site courses is on-the-job training. Many companies speak of "stretch" assignments or "baptisms by fire". P&G refers to "accelerator experiences" and "crucible roles". The most coveted are foreign postings: these can help young managers understand what it is like to run an entire company, or force specialists to deal with a wide range of problems. Other tough tests include building a business in an isolated village (a popular challenge at Hindustan Unilever) or turning around a failing division.

Successful companies make sure that senior managers are involved with "talent development". Jack Welch and A.G. Lafley, former bosses of GE and P&G, claimed that they spent 40% of their time on personnel. Andy Grove, who ran Intel, a chipmaker, obliged all the senior people, including himself, to spend at least a week a year teaching high-flyers. Nitin Paranjpe, the boss of Hindustan Unilever, recruits people from campuses and regularly visits high-flyers in their offices. Involving the company's top brass in the process prevents lower-level managers from monopolising high-flyers (and taking credit for their triumphs). It also creates a dialogue between established and future leaders.

Successful companies also integrate talent development with their broader strategy. This ensures that companies are more than the sum of their parts. Adrian Dillon, a former chief financial officer of Agilent, a firm that makes high-tech measuring devices, says he would rather build a "repertory company" than a "collection of world experts". P&G likes its managers to be both innovative and worldly: they cannot rise to the top without running operations in a country and managing a product globally. Agilent and Novartis like to turn specialists into general managers. Goodyear replaced 23 of its 24 senior managers in two years as it shifted from selling tyres to carmakers to selling them to motorists.

The risks of reaching for the stars

Elitism has its drawbacks. In their rush to classify people, companies can miss potential stars. Those who are singled out for special treatment can become too full of themselves. But the first problem can be fixed by flexibility: people who are average in one job can become stars in another. And people who become too smug can be discarded.

Their obsession with talent has served the likes of GE and P&G well. They have trained enough leaders for themselves, with plenty to spare. P&G's alumni include Steve Ballmer (the boss of Microsoft), Meg Whitman (formerly of eBay), Scott Cook (Intuit) and Jim McNerney (Boeing). The world's public sectors could learn a lot from such talent masters.

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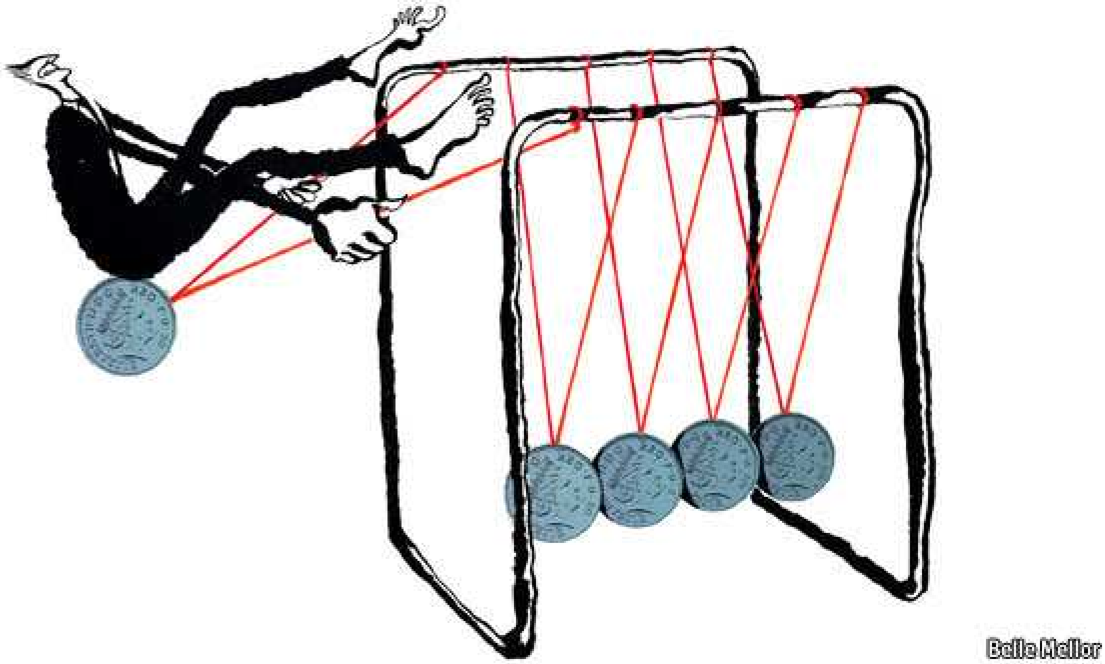
Momentum in financial markets

Why Newton was wrong

Jan 6th 2011 | from PRINT EDITION

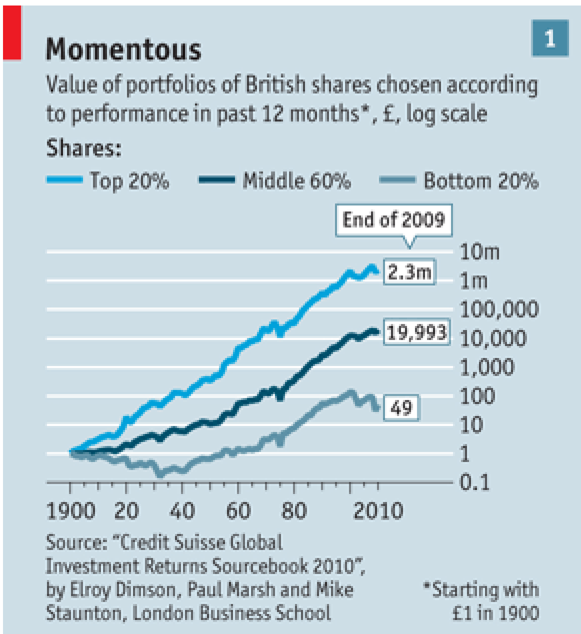
Theory says that the past performance of share prices is no guide to the future. Practice says otherwise



WHAT goes up must come down. It is natural to assume that the law of gravity should also apply in financial markets. After all, isn't the oldest piece of investment advice to buy low and sell high? But in 2010 European investors would have prospered by following a different rule. Anyone who bought the best-performing stocks of the previous year would have enjoyed returns more than 12 percentage points higher than someone who bought 2009's worst performers.

This was not unusual. Since the 1980s academic studies have repeatedly shown that, on average, shares that have performed well in the recent past continue to do so for some time. Longer-term studies have confirmed that this "momentum" effect has been observable for much of the past century. Nor is the phenomenon confined to the stockmarket. Commodity prices and currencies are remarkably persistent, rising or falling for long periods.

The momentum effect drives a juggernaut through one of the tenets of finance theory, the efficient-market hypothesis. In its strongest form this states that past price movements should give no useful information about the future. Investors should have no logical reason to have preferred the winners of 2009 to the losers; both should be fairly priced already.

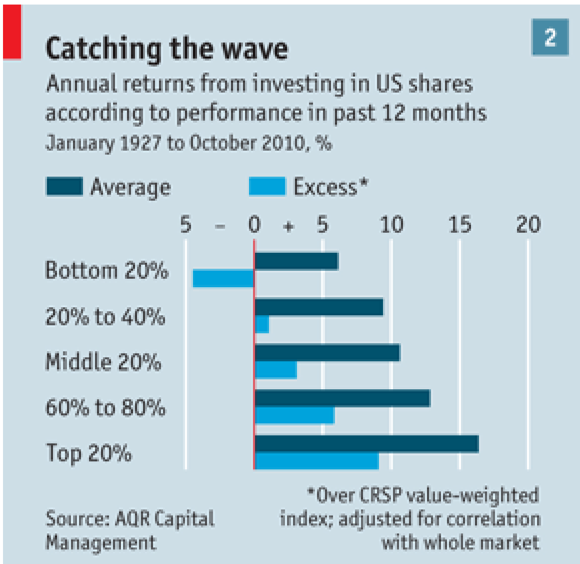


Markets do throw up occasional anomalies-for instance, the outperformance of shares in January or their poor performance in the summer months-that may be too small or unreliable to exploit. But the momentum effect is huge. Elroy Dimson, Paul Marsh and Mike Staunton of the London Business School (LBS) looked at the largest 100 stocks in the British market since 1900. They calculated the return from buying the 20 best performers over the past 12 months and then holding them, rebalancing the portfolio every month.

This produced an annual average of 10.3 percentage points more than a strategy of buying the previous 12 months' worst performers. An investment of pound1 in 1900 would have grown into pound2.3m by the end of 2009; the same sum invested in the losers would have turned into just pound49 (see chart 1).

Messrs Dimson, Marsh and Staunton applied a similar approach to 19 markets across the world and found a significant momentum effect in 18 of them, dating back to 1926 in America and 1975 in larger European markets. A study by AQR Capital Management, a hedge fund, found that the American stocks with the best momentum outperformed those with the worst by more than ten percentage points a year between 1927 and 2010 (see chart 2). AQR has set up a series of funds that attempt to exploit the momentum anomaly.

Too costly, too risky?



Even the high priests of efficient-market theory have acknowledged the momentum effect. Well-paid fund managers have spent decades trying to find ways to beat the market. But you have to wonder why they bother devoting so much money and effort to researching the fortunes of individual companies when the momentum approach appears to be easy to exploit and has been around for a long time.

Logic suggests that the effect should be arbitraged away. If the best performers of the past 12 months continue to do well, smart investors will buy them after 11 months have elapsed, reducing the returns on offer to those who wait the extra month. In turn, others will buy after ten months, then nine, eight and so on until the effect disappears.

When efficient-market theorists come across a market anomaly, they tend to dismiss it in one of three ways. The first argument is that the anomaly is a statistical quirk obtained by torturing the data; it will not persist. But the momentum effect was noticed in 1985 (by Werner de Bondt, a Belgian economist now at DePaul University in Chicago, and Richard Thaler, of the University of Chicago Booth School of Business) and has not gone away.

The second is that any gains from the strategy will be dissipated in higher trading costs. Clearly, the LBS team's strategy of rebalancing a portfolio every month would be expensive but Mr Marsh says these would not offset an annual performance gap of over ten percentage points.

The third is that higher returns simply reflect the higher risks of the strategy. This has been used to explain away two other notable anomalies: the size and value effects. Small companies tend to do better than bigger ones in the long term, but they tend to be less diversified and therefore more risky. And shares that look cheap on conventional measures (asset value, dividend yield, price-earnings ratio) also tend to deliver above-average returns, but belong to firms that are likelier to go bust.

According to a paper by Cliff Asness, who co-founded AQR, the better performance of momentum stocks is not merely a reflection of higher risk. He finds that the momentum effect persisted even when the data were controlled for company size and value (defined as price-to-book) criteria. Another explanation is needed.

One possibility relates to timing. The efficient-market hypothesis assumes that new developments are instantly assimilated into asset prices. However, investors may be slow to adjust their opinions to fresh information. If they view a company unfavourably, they may dismiss an improvement in quarterly profits as a blip, rather than a change in trend. So momentum may simply represent the lag between beliefs and the new reality.

Once a trend is established, a share may benefit from a bandwagon effect. Professional fund managers have to prepare regular reports for clients on the progress of their portfolios. They will naturally want to demonstrate their skills by owning shares that have been rising in price and selling those that have been falling. This "window-dressing" may add to

momentum. Paul Woolley of the London School of Economics has suggested that momentum might result from an agency problem. Investors reward fund managers who have recently beaten the market; such fund managers will inevitably own the most popular shares. As they get more money from clients, such managers will put more money into their favoured stocks, giving momentum an extra boost.

It is hardly a surprise that the momentum effect has been exploited by some professionals for decades. Commodity trading advisers (CTAs), also known as managed futures funds, exist to exploit the phenomenon. They take advantage of trends across a wide range of asset classes, including equities and currencies as well as raw materials. Martin Lueck was one of the three founders of AHL, one of the more successful CTAs, and now works for another trend-follower, Aspect Capital. "Trends occur because there is a disequilibrium between supply and demand," he says. "The asset is trying to get from equilibrium price A to equilibrium price B."

Many of the trend-following models were developed in the late 1970s and early 1980s. They were exploited by investors such as John Henry, best known outside the financial world for owning a baseball team, the Boston Red Sox, and a football club, Liverpool (which is on a downward trend of its own). One of the simplest was to buy an asset when the 20-day moving average of its price rose above its 200-day average. In a recent study Joelle Miffre and Georgios Rallis of the Cass Business School in London found 13 profitable momentum strategies in commodity markets with an average annual return of 9.4% between 1979 and 2004.

Modern CTAs like Aspect and Winton (run by David Harding, another founder of AHL) devote a lot of effort to researching new ways of exploiting momentum. That has sometimes meant trading faster and faster, with a time horizon of milliseconds rather than months. However, not all market movements are part of a trend. Some are merely random fluctuations. "As you trade faster, it is easier to get misled by the noise," says Mr Lueck. Trend-followers can get "whipsawed" in volatile markets, buying at the top of a short-term trend and then selling at a loss shortly afterwards.

That may be one reason why the momentum effect has not been arbitraged away: it can go horribly wrong. Just as trees do not grow to the sky, share prices do not rise for ever. The effect tends to work for the best performers over the past 12 months, but not for those that have shone for longer periods, say three or five years.

The value of value

That may be because of another anomaly, the value effect. Investors eventually get too pessimistic about struggling firms, and price their shares too cheaply. That turns them into bargains. Broadly, whereas momentum works over the short term, value is successful over longer periods. The result can be sharp reversals in markets-and nasty surprises for momentum traders. One such turning-point occurred in 2009. Investors who used a short-term momentum strategy, buying the winners of the previous six months, would have lost 46% in the British market and 53% in America, according to the LBS team. Similarly bad years were 1975, 2000 and 2003.

The momentum effect allows investors to get rich slowly. But many fund managers are impatient and thus use leverage (borrowed money) to enhance returns. Such an approach would lose so much money in bad years that clients might lose faith. "To exploit momentum, you need investors who understand the portfolio is going to be subject to a very high level of volatility," says Mr Marsh of the LBS.

Momentum is so significant in stockmarkets that academics are starting to analyse what role it plays in professional fund managers' returns. This is all part of the long process of removing the "magic" from financial performance. In the early days of fund management, in the 19th century, there were no stockmarket indices. Fund managers could thus claim that a positive return was down to their own brilliance, rather than a general rise of the market, and clients could not tell the difference.

After the development of benchmarks like the S&P 500, clients began to demand that fund managers proved their skill by outperforming an index. Many failed; but even some who succeeded may have done so by holding concentrated portfolios of only a few stocks. Such portfolios were more risky than the overall market. So the next step was to measure the managers' performance after adjusting for risk. Even those managers may have done well because their investment style (value, for instance) was in fashion. So academics started to allow for that, too.

In effect, the portion of the investment return that was purely a result of fund managers' skill was being reduced at every stage. Now, says Mr Marsh, academics are looking to see whether some outperformance is really all down to momentum.

All this analysis matters because these factors can be replicated. These days investors can not only match a benchmark through simple index-tracking funds; they can also own portfolios that exploit the value and momentum effects without paying hefty fund-management fees. The investment-management industry may become even more commoditised.

The momentum effect raises a further important issue. If markets are rational, as the efficient-market hypothesis assumed, then they will allocate capital to its most productive uses. But the momentum effect suggests that an irrationality might be at work; investors could be buying shares (and commodities) just because they have risen in price.

That would help explain why bubbles are created and why professional investors ended up allocating capital to dotcom companies with no earnings and business plans written on the back of a cigarette packet. Momentum can carry whole economies off track.

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Price rises in China

Inflated fears

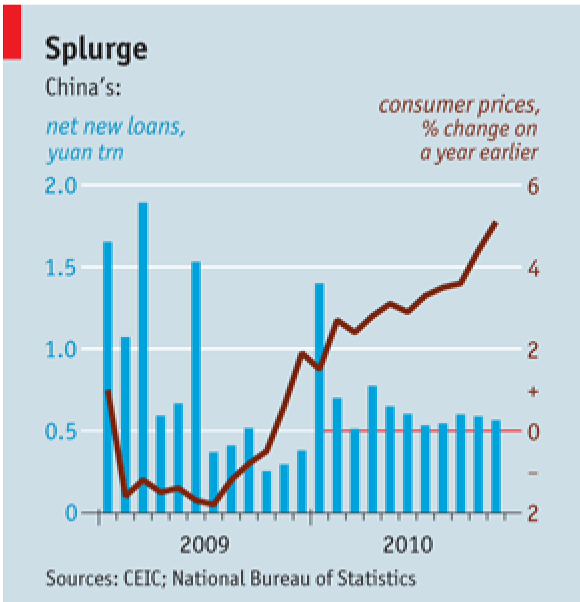
Jan 6th 2011 | *Hong Kong* | from PRINT EDITION

Inflation in China is a problem for the country but not for the world

IN JANUARY 1992 Deng Xiaoping, then China's paramount leader, arrived in Shenzhen for the start of his month-long "Southern tour". He extolled the success of the coastal special economic zones, lambasted his reactionary opponents in Beijing and ushered in a torrid economic boom that forced inflation above 25%.

China has not suffered from double-digit inflation since. But the episode did lasting harm to the credibility of its macroeconomic stewardship. According to Jonathan Anderson of UBS, many outsiders see "the monetary authorities as unreconstructed relics of the socialist planning era without much grasp of market tools." They fear that the economy is '"beyond control", prone to speculative excesses followed by clumsy crackdowns.

China is once again stirring their fears. In the year to November consumer prices rose by 5.1%, the fastest increase for 28 months and a striking turnaround from the deflation of the year before (see chart). Higher prices are now percolating through the economy: last month Starbucks bumped up the price of a whipped-cream Frappuccino by about 6%.



About 75% of China's inflation is the result of higher food prices, as in 2008 when costly food pushed inflation past 8%. But in 2010, unlike 2008, disruptions to food supplies have been modest. China experienced harsh weather early in the year and floods in the summer. But it suffered nothing like the blue-ear disease that took such a toll on the country's pigs in 2007-08.

Food inflation may, therefore, reflect stronger demand rather than weaker supply. As China's households grow richer, meat, poultry and milk are claiming a bigger share of their budgets, according to Wenlang Zhang and Daniel Law of the Hong Kong Monetary Authority. If the share of spending on other things were to shrink, this need not be inflationary. But the rejuggling will cause what Kaushik Basu of India's Ministry of Finance has called "skewflation", a rise in one set of prices relative to others.

If China is suffering from skewflation, or temporary dips in supply, its inflation problem should soon resolve itself. Food prices will settle at a higher level, or fall back. The central bank's only job is to make sure higher food costs do not translate into higher pay demands, which might start a wage-price spiral.

But many economists now worry that the problem runs deeper than food. If the prices of vegetables, fruit and other crops are more flexible than other prices, food inflation may be an early warning of an overheating economy. Perhaps China's monetary policymakers have let the economy slip their grasp again. They have allowed the money supply to grow by half since January 2009, real interest rates to plunge and bank lending to breach government quotas. The central bank's own survey of households shows inflationary expectations at their highest for over a decade.

The People's Bank of China (PBOC) did raise interest rates by a quarter of a percentage point over Christmas, following a similar move in October. The hikes mean that banks cannot now lend at less than 5.81%. But in an economy growing by 15% a year (in nominal terms), that floor is unlikely to deter borrowers. Deposit rates were raised to 2.75%, but in real terms savers get back less than they put in.

The PBOC also raised reserve requirements on banks six times in 2010, obliging them to set aside 18.5% of their deposits, a record ratio. But such requirements may do little more than offset the expansionary effects of the central bank's purchases of foreign exchange, made necessary by its stubborn refusal to allow the yuan to strengthen faster. To ease that pressure, the government has announced that it no longer requires exporters to surrender their foreign exchange in return for yuan.

Besides interest rates and reserve requirements the PBOC still relies on non-market tools such as loan quotas and "window guidance" to banks. Window guidance is not a relic of socialism so much as a throwback to Japan's clubable capitalism of the post-war era. The central bank convenes a meeting of bank heads and offers some friendly advice on how to do their jobs. In 2010, for example, it prodded banks to back China's outsourcing, logistics and culture industries, as well as a drive to encourage university graduates to fill civil-service jobs at "grassroots level".

If "window guidance" influences the direction of lending, China's credit quotas regulate the amount. Or they are supposed to. The government set a limit of 7.5 trillion yuan for new lending for 2010 but banks exhausted a quarter of that quota in the first two months and over 99% of it by the end of November (see chart). The government may not bother to set a quota for 2011, preferring to police the bigger banks month by month and one by one. Policymakers have decided they can live with somewhat higher inflation, raising their target from 3% in 2010 to 4% in 2011.

If China cannot tame its headstrong banking system and quell inflationary expectations, its reputation for macroeconomic management will suffer. But Chinese inflation still need not inflict too much damage on the rest of the world's economy. China makes a big contribution to world growth: it is, after all, 9% of global GDP and it is growing at 10% a year. But it does not make such a big contribution to the rest of the world's growth: whatever its growing imports add to the GDP of its trading partners, its burgeoning exports tend to subtract. Inflation in China may even help its rivals. As prices rise in China, its goods become less competitive abroad. China's trade surplus should shrink, contributing to growth elsewhere. If Chinese inflation is one of the big worries for the world economy in 2011, it should be a decent year.

Indian inflation

Enough to make your eyes water

Jan 6th 2011 | *DELHI* | from PRINT EDITION

A spike in food prices is especially painful for the poor

A bit of argy-bhaji

JAGIR SINGH has sold red onions at Kotla market in south Delhi every day for the past half-century. Perched on an upturned crate, wrapped tight against the chill air, he offers *pyaz*, a staple for much Indian cooking, for 60 rupees ($1.33) a kilo, the most he can remember. Business is brisk but most customers pick up only a small handful of onions. That is just as well: wholesale supplies are tight, he says, and the quality is poor.

As India's economy grows by some 9% a year, food prices are soaring. In late December the commerce ministry judged that food inflation had reached 18.3%, with pricey vegetables most to blame. Officials have made some attempts to temper the rise in the past month-scrapping import taxes for onions, banning their export and ordering low-priced sales at government-run shops. But there is no quick fix.

Heavy rain in the west of India brought a rotten harvest. Vegetables from farther afield-including a politically sensitive delivery from Pakistan-are costly to move on India's crowded, potholed roads. Few refrigerated lorries and poor logistics mean that much of each harvest is wasted. Newspapers allege hoarders (an onion ring?) are cashing in.

The biggest problems are structural. Food producers, hampered by land restrictions, archaic retail networks and bad infrastructure, fail to meet extra demand from consumers. Subir Gokarn, deputy governor of the central bank, estimated in

October that a 39% rise in income per person in the previous five years might have created an extra 220m regular consumers of milk, eggs, meat and fish. Supplies have not kept up with this potential demand.

The broader inflation rate may be a less eye-watering problem than the onions suggest. The central bank has lifted interest rates steadily in the past year and is expected to do so again later this month. Headline inflation fell to 7.5% in November, down by just over a percentage point from October, though it is still above the central bank's forecast of 5.5% for March.

But higher interest rates may encourage more hot money to flow into India. The country's current-account deficit widened to 4.3% of GDP in the quarter ending in September. India has had no trouble yet in financing this gap but Goldman Sachs suggested this week that funding a growing deficit from short-term capital flows remains "the biggest risk to India's growth". For poorer shoppers trying to stretch their food budgets as far as they will go, such concerns may seem a bit abstract.

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A more hopeful continent

The lion kings?

Jan 6th 2011 | from PRINT EDITION

Africa is now one of the world's fastest-growing regions

Go south, young man

World's ten fastest-growing economies*

Annual average GDP growth, %

2001-2010†		2011-2015‡	
Angola	**11.1**	China	9.5
China	10.5	India	8.2
Myanmar	10.3	**Ethiopia**	**8.1**
Nigeria	**8.9**	**Mozambique**	**7.7**
Ethiopia	**8.4**	**Tanzania**	**7.2**
Kazakhstan	8.2	Vietnam	7.2
Chad	**7.9**	**Congo**	**7.0**
Mozambique	**7.9**	**Ghana**	**7.0**
Cambodia	7.7	**Zambia**	**6.9**
Rwanda	**7.6**	**Nigeria**	**6.8**

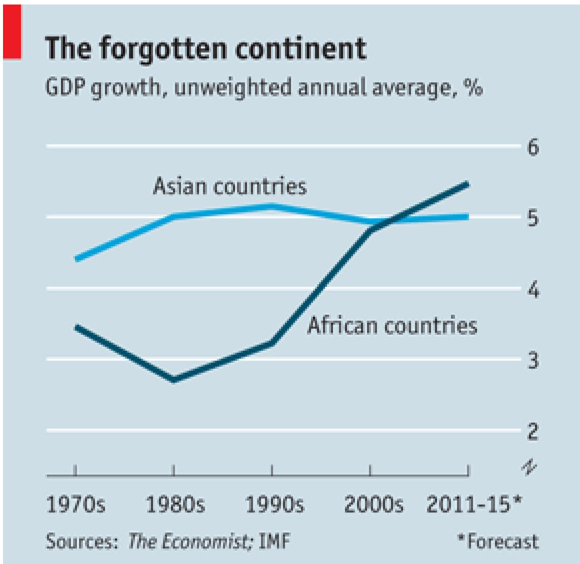
*Excluding countries with less than 10m population and Iraq and Afghanistan †2010 estimate ‡IMF forecast

Sources: *The Economist*; IMF

MUCH has been written about the rise of the BRICs (Brazil, Russia, India and China) and the shift in economic power eastward as Asia outruns the rest of the world. But the surprising success story of the past decade lies elsewhere. An analysis by *The Economist* finds that over the ten years to 2010, no fewer than six of the world's ten fastest-growing economies were in sub-Saharan Africa (see table).

The only BRIC country to make the top ten was China, in second place behind Angola. The other five African sprinters were Nigeria, Ethiopia, Chad, Mozambique and Rwanda, all with annual growth rates of around 8% or more. During the two decades to 2000 only one African economy (Uganda) made the top ten, against nine from Asia. On IMF forecasts Africa will grab seven of the top ten places over the next five years (our ranking excludes countries with a population of less than 10m as well as Iraq and Afghanistan, which could both rebound strongly in the years ahead).

Over the past decade sub-Saharan Africa's real GDP growth rate jumped to an annual average of 5.7%, up from only 2.4% over the previous two decades. That beat Latin America's 3.3%, but not emerging Asia's 7.9%. Asia's stunning performance largely reflects the vast weight of China and India; most economies saw much slower growth, such as 4% in South Korea and Taiwan. The simple unweighted average of countries' growth rates was virtually identical in Africa and Asia.



Over the next five years Africa's is likely to take the lead (see chart). In other words, the average African economy will outpace its Asian counterpart. Looking even farther ahead, Standard Chartered forecasts that Africa's economy will grow at an average annual rate of 7% over the next 20 years, slightly faster than China's.

So it should, of course. Poorer economies have more potential for catch-up growth. The scandal was that Africa's real GDP per head fell for so many years. In 1980 Africans had an average income per head almost four times bigger than the Chinese. Today the Chinese are more than three times richer. Africa's rapidly rising population still dampens its growth in real income per head but that, too, has risen by an annual rate of 3% since 2000-almost twice as fast as the global average.

For Western firms Africa's economy still looks tiny, accounting for only 2% of world output. Emerging Asia's is ten times larger. But Africa's share is rising, not only because of brisker growth but because GDP has been seriously understated in many economies. In November the size of Ghana's economy was revised up by a massive 75% after government statisticians improved their data and added in industries such as telecoms. Other countries are likely to revise their GDP levels and growth rates upward over the coming years.

Africa's changing fortunes have largely been driven by China's surging demand for raw materials and higher commodity prices, but other factors have also counted. Africa has benefited from big inflows of foreign direct investment, especially from China, as well as foreign aid and debt relief. Urbanisation and rising incomes have fuelled faster growth in domestic demand.

Economic management has improved, too. Government revenues have been bolstered in recent years by high commodity prices and rapid growth. But instead of going on a spending spree as in the past some governments, such as Tanzania's and Mozambique's, have put money aside, cushioning their economies in the recession.

Some ambled through the decade rather than sprinted. Africa's biggest economy by far, South Africa, is one of its laggards: it posted average annual growth of only 3.5% over the past decade. Indeed, it may be overtaken in size by Nigeria within ten to 15 years if Nigeria's bold banking reforms are extended to the power and the oil industries. But the big challenge for all mineral exporters will be providing jobs for a population expected to grow by 50% between 2010 and 2030.

Commodity-driven growth does not generate many jobs; and commodity prices could fall. So governments need to diversify their economies. There are some glimmers. Countries such as Uganda and Kenya that do not depend on mineral exports are also growing faster than before, partly because they have increased manufacturing exports. Standard Chartered thinks that Africa could become a significant manufacturing centre.

Formidable obstacles to Africa's continued progress loom, among them political instability, the weak rule of law, chronic corruption, infrastructure bottlenecks, and poor health and education. Without reforms, Africa will not be able to sustain faster growth. But its lion economies are earning a place alongside Asia's tigers.

Bank of America

Moynihan's millstones

Jan 6th 2011 | *NEW YORK* | from PRINT EDITION

America's largest bank is also its most ruffled

ANOTHER year, another fresh start. Bank of America's takeovers of Countrywide and Merrill Lynch during the financial crisis saddled it with a heap of housing-related trouble. After a rough first year in charge since succeeding Ken Lewis as BofA's boss, Brian Moynihan has spelled out his latest new year's resolutions: tackling the bank's mortgage problems head-on and seeing off a related threat from internet marauders.

In a deal that could become a template for others, the bank this week settled with Fannie Mae and Freddie Mac over most of their investments in dodgy loans that BofA securitised. The total cost of buying back mortgages from the two housing-finance agencies will be around $10 billion, a manageable hit. The deal with Fannie and Freddie "shows a willingness to take control of the situation and sets a tone for the year," says Mike Mayo of CLSA, a stockbroker.

The bank is also trying to limit the possible damage from a document dump promised by WikiLeaks in the coming weeks. Julian Assange, WikiLeaks' founder, claims to have five gigabytes of material from a BofA executive's computer hard drive. Some think this relates to iffy lending by Countrywide. Others speculate regulators investigating the Merrill deal may have also passed on information.

How explosive this proves, or even whether the leak happens, remains to be seen. But the bank is taking no chances. A team led by the chief risk officer, and helped by Booz Allen, a consultancy, is sifting through thousands of internal documents to gauge the impact of their release.

Other problems loom. The bank, America's largest mortgage servicer, is being pushed towards a costly settlement with state attorneys-general, who have been investigating banks' foreclosure practices. Worse, it faces a barrage of loan-repurchase lawsuits from bond insurers and private mortgage investors. Seeing off the insurers should cost BofA only $2 billion, reckons Glenn Schorr of Nomura. The cost of dealing with the private investors is less clear, with estimates ranging from $4 billion to nine times that. Most think it will be towards the lower end, as private investors face bigger hurdles in pursuing their claims than the mortgage agencies. Fannie and Freddie have better access to documents, for instance. Banks also have a clear incentive to make peace with the duo that dominates mortgage markets. But Mr Schorr sees the potential cost of settling with private investors as the biggest risk overhanging the bank from its past.

Another worry is the impact of the Dodd-Frank financial-reform act. Some 4.7% of the bank's revenues are at risk from new rules, compared with 1.4% for its peer group, reckons Andrew Marquardt of Evercore Partners. To its credit, BofA has dealt proactively with some threats, for instance by taking a $10.4 billion charge relating to proposed restrictions on debit-card fees.

That has not stopped BofA assuming the mantle of America's most accident-prone large bank, a title that Citigroup has gladly handed over. A year ago, Citi was reeling and its boss, Vikram Pandit, was seen as Wall Street's most vulnerable leader. But sentiment has begun to swing its way after some vigorous asset disposals and the government's sale of its remaining stake. It helps that Citi earns almost half its revenues abroad, versus 20% at BofA.

Mr Moynihan is working hard to win over fretful clients and investors. But it is a struggle when your bank is hugely complex, culturally messy and heavily exposed to a still-wobbly housing market. Tellingly, BofA is now seen as being more at risk of default than Citi (see chart). Optimists point to the bank's enviable franchises in retail, corporate and now investment banking too. But pressure on Mr Moynihan could grow quickly if the share price, which fell by 11% in 2010, does not rebound. On handing over, Mr Lewis joked that wanting the job was a "unique characteristic" of Mr Moynihan's. That probably still holds true.

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Buttonwood

Betting big on bonds

Jan 6th 2011 | from PRINT EDITION

An economist advises investors to expect deflation

THE debt crisis has presented investors with an extremely awkward dilemma. Debt ratios, relative to GDP, are so high that it seems unlikely that most developed economies can grow their way out of the mess. That leaves the unappealing options of default, Japanese-style stagnation or rapid inflation to erode the real value of the debt burden.

Selecting the right portfolio to take advantage of these different scenarios is very difficult. An inflationary outcome would encourage investors to buy commodities and sell Treasury bonds; a deflationary outcome would suggest the reverse. Equities might perform better than government bonds in the event of inflation, but might still deliver negative real returns as they did for much of the 1970s. Cash may provide security but offers virtually nothing in yield.

In a new book "The Age of Deleveraging: Investment Strategies for a Decade of Slow Growth and Deflation"*, Gary Shilling, an economist, argues for the deflationary outcome. He expects American GDP growth to average only 2% over the next decade as the economy struggles to deal with the debt burden.

The baby boomers will be forced to increase their savings as they approach retirement, he argues. Heavier regulation will weigh on the business sector and governments will be forced to tighten fiscal policy. As a result of all this, there will simply be too much spare economic capacity to generate inflation, despite the Federal Reserve's attempts at quantitative easing (creating money to buy assets). China, in particular, has indulged in an investment boom, building enormous excess capacity that will keep downward pressure on global prices.

Mr Shilling is sceptical about the appeal of Wall Street in such circumstances. He points out that American equities are significantly overvalued on the best long-term measure, the cyclically adjusted price-earnings ratio which smooths profits over ten years. Total real returns are likely to average 2-3% annually over the next decade, much lower than investors seem to be expecting.

Nor is Mr Shilling very optimistic about emerging markets, since he believes they are still dependent on American consumption. Following the same reasoning, he is also sceptical about credit-card companies, most home builders and companies selling big-ticket consumer items (such as cars). And his deflationary view inclines him against exposure to commercial property and commodities.

Instead Mr Shilling thinks that investors should own long-dated Treasury bonds. He thinks that the yield on the 30-year issue, currently around 4.5%, could fall to 3% or below, as it did briefly in 2008. In addition, investors should own high-quality corporate bonds, stocks with solid dividends and those exposed to consumer basics, such as food. He also believes that the dollar will do well, given that it is undervalued in purchasing-power-parity terms and that other regions, notably Europe, face big debt problems of their own.

Publishing deadlines are unforgiving to authors writing about the financial markets and recent events have not been helpful to Mr Shilling's thesis. Commodity prices were still weak in the summer of 2010, when the book appears to have been written, but they rebounded in the second half of the year. Stockmarkets also seemed to recover from the shock of the sovereign-debt crisis, rallying strongly in the last quarter of 2010. The 30-year Treasury-bond yield has risen sharply from a low of 3.5% in August. And the latest batch of American economic data (such as the purchasing managers' indices) have tended to point in the direction of fairly robust growth this year.

None of this proves that Mr Shilling, who has made some shrewd market calls in the past, will be proved wrong in the long run. Many of the world's economic problems, from weak American housing and European fiscal weakness to global economic imbalances, have not gone away. Debt has simply been transferred from the private to the public sector. The latest growth figures may be just a blip: even Japan has had some strong quarters in the past 20 years.

But it does suggest that investors cannot afford to put all their eggs in the deflationary basket. Inflating away the debt is still an option if the authorities try hard enough. A portfolio exposed to the long-term debt of a government that has just opted to cut taxes in the face of a trillion-dollar deficit would suffer heavy losses if Mr Shilling turns out to be wrong.

* Published by Wiley, 512 pages, $39.95

Economist.com/blogs/buttonwood

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Grameen Bank

Saint under siege

Jan 6th 2011 | *Dhaka* | from PRINT EDITION

A microfinance pioneer is under attack in his homeland

More questions for Yunus

IN MUCH of the world Muhammad Yunus is known as the genial pioneer of microcredit and the winner of the 2006 Nobel peace prize. Yet in his native Bangladesh Mr Yunus's reputation is under attack. His supporters fear that the government plans to remove him from Grameen Bank, the microlender he founded, and take it over. In late December Mr Yunus had to issue a statement denying claims by some in the Bangladeshi government that he had resigned from his post as the managing director of Grameen.

The initial trigger for the attack on Mr Yunus was a documentary screened on Norwegian television in November, which dredged up an old controversy about the use of development funds provided to Grameen by Norad, the Norwegian aid agency, in the 1990s. Grameen transferred the ownership of the Norwegian funds from one Grameen entity, fearing its tax-exempt status might be changed, to another. Discomforted, the Norwegian government asked Grameen Bank, which had originally been given the funds, to retain ownership. This was done in 1998. The Norwegian government said in early December that a probe by Norad had failed to uncover any evidence that its money was used for unintended purposes, or that Grameen had engaged in corrupt practices.

But the release of the documentary led to sharp attacks on Mr Yunus and Grameen in Bangladesh. Sheikh Hasina, the prime minister, accused Mr Yunus of playing "a trick" to evade taxes. She charged microlenders with "sucking blood from the poor in the name of poverty alleviation" and treating the people of Bangladesh as "guinea pigs". On December 24th the government announced that it was planning a "high-level investigation" into Grameen's operations.

Another line of fire opened up on January 4th when a Bangladeshi news website alleged that Grameen's 20-year-old relationship with a printing company called Packages Corporation, which had been owned by Mr Yunus's family since the 1960s, was rife with conflicts of interest. Grameen took over the management of the firm in 1990 to use it for its own printing needs; it has also provided the printers with loans from a Grameen fund. The bank stresses that Mr Yunus's family, who retained ownership, have not gained financially from the relationship (among other things, the agreement with Grameen restricted the owners from getting any of the printer's profits).

Mr Yunus denies all the charges against him but has made powerful enemies among Bangladesh's politicians. During a period of rule by a military-backed caretaker government a few years ago, he announced the formation of a political party, a project he soon dropped. Some reckon Sheikh Hasina is miffed that Mr Yunus and Grameen got the Nobel prize. It

remains unclear how far the government, which already has three seats on Grameen Bank's board, will go. Some fear that if the government succeeds in taking Grameen over it could turn its sights on other successful outfits, like BRAC. Bangladeshi microlenders can no longer consider themselves safe from the country's messy politics.

Chinese capital markets

Another breach in the wall

Jan 6th 2011 | *SHANGHAI* | from PRINT EDITION

Plans for the first yuan-denominated share offering in Hong Kong

CHINA has become pretty practised at stage-managing its international bows. The yuan's rise as a global currency is being handled with familiar deliberation. Another big milestone for the yuan is likely to come in the first half of this year, when the mainland chunk of Cheung Kong Holdings, a property vehicle owned by Li Ka-shing, a Hong Kong mogul, will be spun off in the territory's first yuan-denominated public offering.

There has been no public comment on the deal and a profusion of rumours. But it appears that the deal has the blessing of China's Ministry of Commerce and Hong Kong's stock exchange, leaving the China Securities Regulatory Commission to give the final nod.

The business rationale for a Cheung Kong offering looks straightforward. Money would be raised for new mainland property investments from mature ones at very attractive rates, says Cusson Leung at Credit Suisse. Hong Kong investors are starved of China-focused property shares. There is currently only one mainland real-estate investment trust listed in Hong Kong, and the GZI REIT is both small (with a market capitalisation of HK$4.6 billion, or $592m) and denominated in Hong Kong dollars, which offer less prospect of appreciation.

The interests of Hong Kong are equally clear. It is desperate to maintain its role at the centre of China's capital markets at a time when its two mainland rivals, Shanghai and Shenzhen, are taking their own tentative steps towards opening up. That means giving depositors in offshore yuan accounts in Hong Kong, all receiving little or no interest, an opportunity to put their money to work. There has been a smattering of yuan-denominated bond offerings in recent months-the World Bank issued its first "dim sum" bond on January 4th-but not enough to soak up the soaring amounts of yuan deposits (see chart). Cheung Kong's offering could eat up a lot of the supply.

There are still sizeable obstacles to moving yuan in and out of China, however. In another first, in December Shui On Land, a mainland property developer, raised money in a Hong Kong bond issue that was denominated in yuan but will be

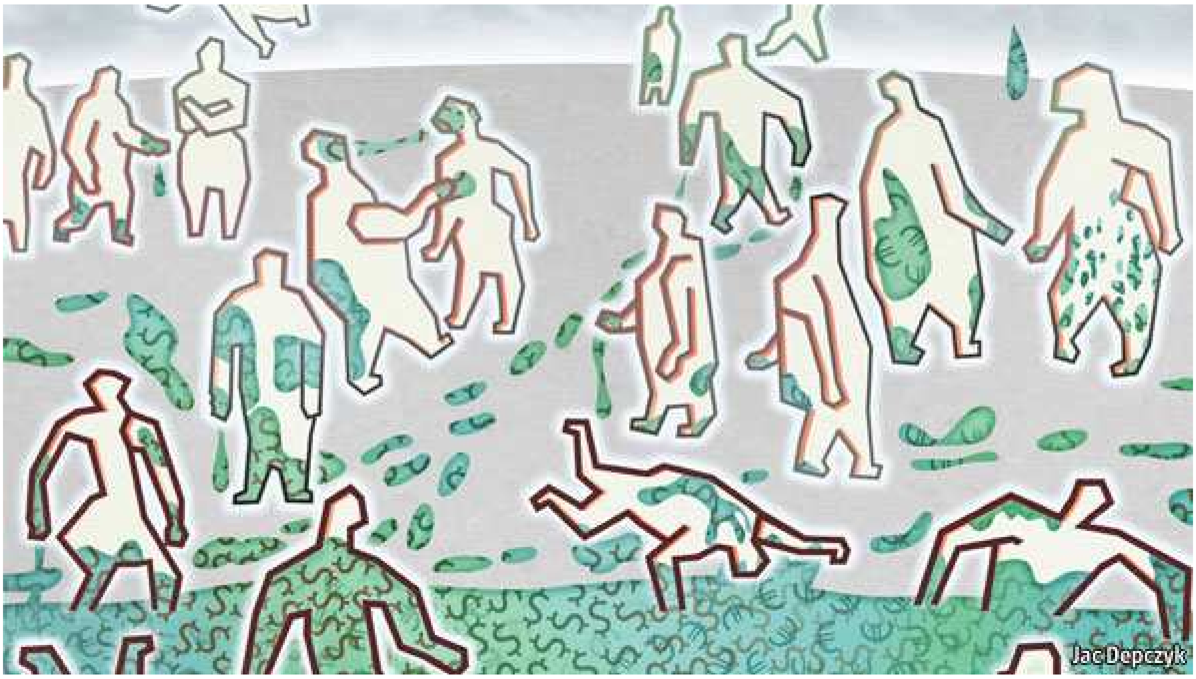
settled in dollars, which remain easier to send in and out of China. The Beijing government could solve these problems by fully opening its capital account, of course, but few expect improvisation to replace careful choreography.

Economics focus

Dismal ethics

Jan 6th 2011 | from PRINT EDITION

An intensifying debate about the case for a professional code of ethics for economists



THE annual meeting of the American Economic Association (AEA), which was due to begin in Denver, Colorado, on January 6th, will be the usual melee of receptions, networking events and seminars (more than 500 of them) on the latest economic research. But this year's shindig finds economists in an unusually reflective mood. One panel will discuss the failings of the discipline in light of the financial crisis. Another will consider how economics needs to change as a consequence. Most striking of all, for a profession that tends to pay little explicit attention to such matters, the first day's schedule also contains a debate on the role of ethics in the economics profession.

Some would like to move beyond mere discussion. Economists-unlike sociologists, anthropologists, statisticians or political scientists-do not formally subscribe to a professional ethical code. Close to 300 economists have signed a letter urging the AEA, as the discipline's foremost professional body, to adopt such a code. The signatories include such luminaries as George Akerlof, a Nobel laureate, and Christina Romer, who recently returned to the University of California, Berkeley, after heading Barack Obama's Council of Economic Advisers.

Sceptics scoff that codes like this are often ignored. And many economists are rightly suspicious about any professional body decreeing what should constitute acceptable lines of inquiry for economists or how economists ought to apply the fruits of their knowledge. So the letter-writers have sensibly chosen to concentrate on the conflicts that may arise when economists opine about matters that affect industries or companies with which they have financial links.

Such conflicts of interest exist across many professions, of course. But they are particularly common in the dismal science. Economists analyse issues that affect particular industries, making it more likely that companies will ask them to sit on their boards or employ them as consultants, and that governments will ask them to get involved in areas of public policy. Doing such work should not be discouraged: it enhances economists' understanding of what really goes on in the industries they study. But asking that existing affiliations be disclosed seems entirely fair.

Critics of the profession argue, for example, that it is no coincidence that financial economists, many of whom were engaged as consultants by Wall Street firms, were by and large extremely averse to regulating the financial sector. It could well be that economists whose prior research convinced them of the benefits of greater financial liberalisation were more willing to speak up for Wall Street. But it is hard for economists to claim that being paid by firms in no way affects how they approach or select the issues they study. After all, modern economic theory rests on the idea that incentives matter in determining how people behave.

You might assume that economists already disclose their links to organisations. But when economists write articles for the opinion pages of newspapers and magazines, appear on television to discuss matters of economic policy or testify before parliamentary committees, the audience is often unaware of their non-academic affiliations. A study by Gerald Epstein and Jessica Carrick-Hagenbarth of the University of Massachusetts, Amherst, looked at how 19 prominent academic financial economists who were part of advocacy groups promoting particular financial-reform packages in America described themselves when they wrote articles in the press. Most had served as consultants to private financial firms, sat on their boards, or been trustees or advisers to them. But in articles written between 2005 and 2009 many never mentioned these affiliations, and most of the rest did so only sporadically and selectively. Readers may have assumed they had more distance from the industry than was in fact the case.

Yet it is also fair to point out that there is little clear evidence that economists' professional judgment was clouded by their affiliations. In their study Mr Epstein and Ms Carrick-Hagenbarth find no discernible difference between the degree of financial regulation espoused by economists in their sample who had affiliations with financial firms and those who did not. This is hardly definitive, given the small sample, but it does caution against jumping to the conclusion that economists are biased simply because of their relationships with firms.

As for academic research, some disclosure requirements already exist. The National Bureau of Economic Research (NBER), America's foremost publisher of working papers, requires its fellows to disclose any financial relationships that could pose a conflict when they submit an article. Many journals already ask that funding sources for research projects be mentioned but may want to consider adopting additional NBER-style disclosure forms. Forums like the AEA meetings, where economists are forced to defend the validity of their research against their peers' attempts to poke holes in it, are another vital way to ensure that economic research is credible, robust and valid.

Faith or failure?

Some argue that economists face greater ethical questions than those about financial conflicts of interest. A forthcoming book by George DeMartino of the University of Denver argues that economists have too often pushed too strongly for free-market policies-whether shock therapy for transition economies in eastern Europe or unchecked financial liberalisation-on the basis of limited understanding or, worse, because they ignored ways in which the real world departs from the idealised one of neoclassical economic theory. Given the enormous impact their opinions and analysis have on people's lives, Mr DeMartino argues, economists should be a bit more humble about the limits of their knowledge. Hubris, he reckons, has led to some of the profession's most egregious ethical failings. A code on disclosure will not be much use in addressing that charge.

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Climate science

A fistful of dust

Jan 6th 2011 | *SAN FRANCISCO* | from PRINT EDITION

The true effect of windblown material is only now coming to be appreciated

ON MAY 26th 2008 Germany turned red. The winds of change, though, were meteorological, not political. Unusual weather brought iron-rich dust from Africa to Europe, not only altering the colour of roofs and cars on the continent but also, according to recent calculations by Max Bangert, a graduate student at the Karlsruhe Institute of Technology, making the place about a quarter of a degree colder for as long as the dust stayed in the air.

Unusual for Germany; commonplace for the planet as a whole. The Sahara and other bone-dry places continually send dust up into the atmosphere, where it may travel thousands of kilometres and influence regional weather, the global climate and even the growth of forests halfway around the planet.

Earlier in 2008, for instance, Ilan Koren and his colleagues at the Weizmann Institute of Science, in Israel, detected a particularly voluminous burst of dust from the Bodele Depression. This low-lying bed of silt in Chad, across which powerful jets of wind are wont to blow, constitutes less than 1% of the Sahara's area but is reckoned the world's dustiest place. It is thought to be responsible for a quarter or more of the Sahara's output of airborne dust.

Dr Koren observed the dust rise with a camera on a satellite called *Aqua*; watched it obscure the sun using an automated photometer in Ilorin, Nigeria; followed it across the Atlantic with another satellite, *CALIPSO*; and finally saw a spike in levels of silicon, aluminium and iron as it landed on detectors in Manaus, Brazil. His results, presented at a meeting of the American Geophysical Union held in San Francisco in December, provide a remarkable account of the intercontinental transfer of dust.

Blowin' in the wind

The importance of this long-distance logistical chain has become apparent only in the past few years, and researchers are still working out its many repercussions-for the more you look at dust, the more effects it seems to have. African dust is thought, for example, to stimulate plant growth in the Amazon by bringing in phosphorus (which is in short supply there). This may put a check on global warming by removing what would otherwise be a long-term constraint on the forest's ability to suck up carbon dioxide as it grows.

Dust which does not reach land may do something similar to the sea. Some parts of the ocean are short of iron, which red desert dust has in abundance. Dust from the Gobi desert seems to stimulate plankton blooms in the nutrient-poor waters of the North Pacific, though it is not clear whether this results in a net reduction of atmospheric carbon dioxide, since that would require some of the plankton to sink to the seabed, never to return.

Dust aloft cools the land below, as Europe's meteorologists found out in May 2008. It does this directly, by reflecting sunlight back into space, and indirectly, by helping clouds to form. The effect is significant. The carbon dioxide which has been added to the atmosphere since the industrial revolution began has a greenhouse effect equivalent to the arrival of about 1.6 watts of extra solar power per square metre of the Earth's surface. The direct effects of dust are estimated to provide a countervailing cooling of about 0.14 watts per square metre. Add the indirect effect on clouds and this could increase markedly, though there are great uncertainties.

This dust-driven cooling, though, is patchy-and in some places it may not even be helpful. Dust that cools a desert can change local airflow patterns and lessen the amount of rain that falls in surrounding areas. This causes plants to die, and provides more opportunities for wildfires, increasing the atmospheric carbon-dioxide level.

To get a better sense of the net effects brought about by the ups and downs of dust, it would help to have a detailed historical record of the dustiness of the planet. And this is what Natalie Mahowald of Cornell University and 19 colleagues have achieved. They analysed cores from glaciers, lake bottoms and coral reefs and measured how the levels of some telltale chemicals changed with depth, and thus with time. They then used models of global wind circulation to deduce which dust sources have become stronger and which weaker. Their conclusion, published recently in *Atmospheric Chemistry and Physics*, is that in fits and starts over the past century the air became twice as dusty.

Part of the increase stems from human activities-directly, in the case of construction, or indirectly, when it results from clearing vegetation from marginal land in order to farm it. Another part of the explanation may be global warming itself, shifting the boundaries of deserts and intensifying dust production in some areas.

How many times must a man look up?

The amount of dust actually injected into the atmosphere, though, may have been significantly underestimated. In a recent paper in the *Proceedings of the National Academy of Sciences*, Jasper Kok of the National Centre for Atmospheric Research, in Boulder, Colorado, writes that the amount of coarse dust driven into the atmosphere by wind is at least double and may be eight times as much as previously thought.

He arrived at this conclusion not by measuring dust directly from planes or satellites, which see only a bit of the atmosphere at a time and are not necessarily good at picking up all signs of dust, but by reasoning his way to a model of how loose soil, some fine and some coarse, is affected by the wind and lifted into the air.

Fine particles of dust do not simply lie around until they are blown away by the wind. Rather, they stick together in clumps. Only when these clumps are broken up is the dust liberated. That happens when heavier particles are lifted by the wind and then fall back to the ground, hammering and shattering the dust-clumps as they do so. Dr Kok shows that this shattering, like the shattering of all sorts of other things, produces a distinctive mix of particle sizes. This mix does not match those currently used in climate models. It has more bigger particles and fewer smaller ones. The discrepancy seems not to have been noticed before because existing ways of measuring dust are biased towards the finest material-that which most influences air temperature and cloud formation.

The consequences of this reassessment are unclear, since the effects of coarse dust are not well understood. Also, the larger particles fall out of the atmosphere more quickly. What is clear is that it is yet another example of how fiendishly complicated the atmosphere is, and what a broad set of approaches is required to understand it.

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The inheritance of obesity

Thanks, Dad

Jan 6th 2011 | from PRINT EDITION

Fathers, as well as mothers, can pass on a propensity to obesity if they themselves have been starved

THAT a gestating mother's environment can have a permanent effect on the physiology of her offspring is well established. The children of Dutch women who were pregnant during the "Hunger Winter" of 1944, for example, suffer much higher rates of obesity, diabetes and cardiovascular disease than those born a year or two earlier. Similar observations in other famines, together with experiments on rodents, suggest this is an accidental consequence of an evolutionary adaptation to food scarcity. The offspring of starving mothers, anticipating hard times during their own future lives, adjust their metabolisms to hoard calories. If the hard times then go away, the result is a tendency to put on weight, with the unpleasant consequences that entails.

Part of this adaptation is a response by the embryo to the nutrition it receives through the placenta. In some cases, though, the unfertilised ovum itself is believed to be affected. Its DNA is reprogrammed, the theory goes, by a process called cytosine methylation. This switches genes on and off in a way that is maintained when DNA replicates during the process of cell division-and can thus be passed down the generations. It is, moreover, a process that could apply equally to the sperm of putative fathers who were starved around the time of mating.

There are hints that it does. In particular, a recent paper by Sheau-Fang Ng of the University of New South Wales showed that gene activity in the pancreases of mice sired by fat fathers is abnormal. That is significant because the pancreas makes insulin, which regulates blood sugar. Abnormal insulin levels cause diabetes.

Oliver Rando of the University of Massachusetts and his colleagues have now looked at another metabolically crucial organ, the liver, and found a similar effect. To mimic starvation, they fed half of a group of male mice a diet that contained 11% protein, which is low for such rodents. The others were fed a normal diet, containing 20% protein. After between nine and 12 weeks on these diets, each male was given a couple of days' access to a female who had been raised on a normal diet, to allow him to mate. The males were then taken away from their females, to limit any influence they might have on their progeny. After birth, those progeny were reared by their mothers until they were three weeks old, at which point they were killed and their livers analysed to study the activity of genes involved in metabolism.

As they report in *Cell*, Dr Rando and his team found 445 genes whose expression appeared to depend strongly on the diet of the father. In particular, genes associated with fat and cholesterol synthesis were much more active in the offspring of fathers who had been fed low-protein diets than in those sired by males who had been on normal diets. That, it might reasonably be assumed, would have allowed the mice in question to lay down any surplus calories as fat more easily than the offspring of well-fed fathers could have done.

Whether cytosine methylation is the explanation for this difference has yet to be tested, but something is clearly happening. Fathers, as well as mothers, it seems, can pass on the benefits of their experiences by subtle tweaking of their genes.

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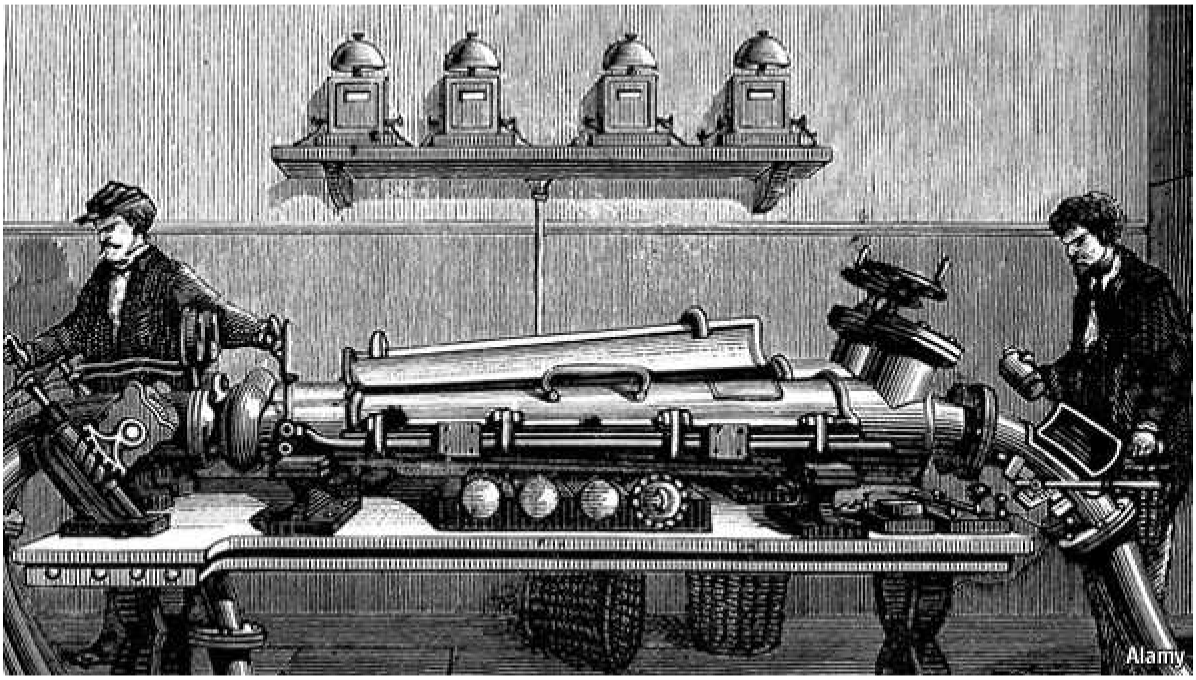
Freight transport

Put that in your pipe and poke it

Jan 6th 2011 | from PRINT EDITION

A visionary idea for modernising the goods-distribution network



Pipe dreams

ENTHUSIASTS of the digital economy sometimes forget that bits are not everything. However important information is in transforming business, most of what is actually bought and sold is still physical goods, and those goods need to be delivered to the customer. Unlike information technology, though, freight transport has not evolved much during the past few decades. It takes only a few seconds to choose and buy something from an online store, but several days for it then to reach the purchaser. That process also burns oil, contributes to traffic jams and makes the planet's atmosphere a little warmer by releasing carbon dioxide.

Freight transport could thus use some fresh ideas. Or at least a new version of an old idea. And that is exactly what Franco Cotana, an engineering physicist at the University of Perugia, in Italy, has in mind. He proposes to revive, with a modern twist, an extinct technology called the pneumatic pipe.

In the late 19th and early 20th century, underground tubes were used in many cities to speed up the transport of mail between post offices and government buildings. Letters were put into capsules, the capsules into the tubes, and compressed air was then used to push the capsules from one station to the next. It was not uncommon at the time to think that pneumatic post of this sort would develop into a wide network, like telephony or electricity. In 1900 Charles Emory Smith, then postmaster-general of the United States, wrote that by the end of the decade he expected the "extension of the pneumatic tube system to every house, thus insuring the immediate delivery of mail as soon as it arrives in the city".

The reason this never happened, Dr Cotana observes, is that air compressors are expensive to operate and maintain, and the energy they produce dissipates quickly, so capsules can cover only short distances. But technology now exists to overcome those limitations.

Pipenet, a system Dr Cotana patented in 2003 and has been developing since then, is based on a network of metal pipes about 60cm (two feet) in diameter. Instead of air pressure, it uses magnetic fields. These fields, generated by devices called linear synchronous motors, both levitate the capsules and propel them forward. The capsules are routed through the network by radio transponders incorporated within them. At each bifurcation of the pipe, the transponder communicates the capsule's destination and the magnets pull it to the left or the right, as appropriate. Air pumps are involved, but their role is limited to creating a partial vacuum in the pipes in order to reduce resistance to the capsules' movement. This way, Dr Cotana calculates, capsules carrying up to 50kg of goods could travel at up to 1,500kph-so you could be wearing a pair of jeans or taking photographs with a new camera only a couple of hours after placing your order.

The concept of rapid maglev travel, as this trick is known, is not new. The ultra-fast rail line that connects Shanghai with its airport works on just this principle. But maglev has never really taken off, mainly because of the expense. The novelty of Dr Cotana's approach is that by scaling things down from passenger trains to small capsules, that expense is drastically reduced. Also, the tubes could use existing rights of way alongside roads and railways. In these ways, the cost could, Dr Cotana reckons, be kept below euro2.5m per kilometre ($5m per mile). That is a fifth to a tenth of the cost of building a high-speed railway.

Whether that is cheap enough for the system to be viable remains to be seen. The team has, however, completed a feasibility study for a pipeline network in Perugia, a medieval city whose narrow, steep streets make existing means of goods delivery particularly inefficient. This study suggests the system would repay the cost of building it within seven years.

Nor is Italy the only ancient country that might benefit from Dr Cotana's revivalist technology. His team is now working with researchers at Tongji University in China who are interested in trying Pipenet there. Rather as Africa ignored fixed-line telephony and jumped straight to mobiles, so China might benefit from "latecomer advantage" in the field of freight transport. Charles Emory Smith's prophecy may thus come true-just a century late, and on the other side of the Pacific.

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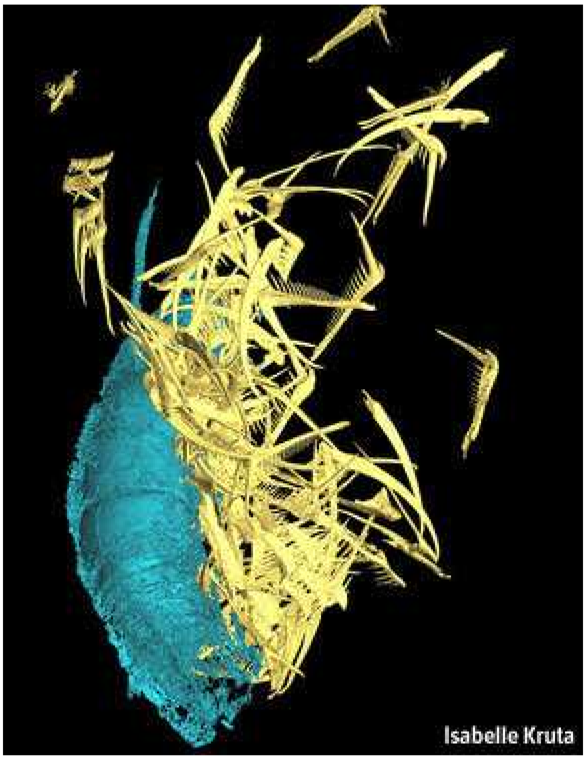
Palaeontology

The last supper

Jan 6th 2011 | from PRINT EDITION

An ammonite's final meal casts light on the group's ecology



THIS picture shows an ammonite's last meal. Ammonites, a group of squid-like animals that lived in buoyant, air-filled spiral shells, dominated the seas of the Mesozoic era. They died out, along with the dinosaurs and many other creatures, at the end of the Cretaceous period, 65m years ago, when the Earth was hit by an asteroid. The blue part of the image is an isopod-a small crustacean. The yellow is the remains of the ammonite's teeth.

The photograph, published this week in *Science*, was taken by a group led by Isabelle Kruta of the French National Museum of Natural History, using a technique called synchrotron X-ray microtomography. This is able to see structures still embedded in the rock in which the ammonite was preserved.

It was not previously known what ammonites fed on-and, in truth, this evidence applies only to the animal in question, a species of *Baculites*. But if the technique can be used more widely, it may be possible to reconstruct the food chains of ancient oceans.

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Politics and the internet

Caught in the net

Jan 6th 2011 | from PRINT EDITION

Why dictators are going digital

The Net Delusion: The Dark Side of Internet Freedom. By Evgeny Morozov. *PublicAffairs; 408 pages; $27.95. Published in Britain by Allen Lane as "The Net Delusion: How Not to Liberate the World"; pound14.99.* Buy from Amazon.com, Amazon.co.uk

WHEN thousands of young Iranians took to the streets in June 2009 to protest against the apparent rigging of the presidential election, much of the coverage in the Western media focused on the protesters' use of Twitter, a microblogging service. "This would not happen without Twitter," declared the *Wall Street Journal*. Andrew Sullivan, a prominent American-based blogger, also proclaimed Twitter to be "the critical tool for organising the resistance in Iran". The *New York Times* said the demonstrations pitted "thugs firing bullets" against "protesters firing tweets".

The idea that the internet was fomenting revolution and promoting democracy in Iran was just the latest example of the widely held belief that communications technology, and the internet in particular, is inherently pro-democratic. In this gleefully iconoclastic book, Evgeny Morozov takes a stand against this "cyber-utopian" view, arguing that the internet can be just as effective at sustaining authoritarian regimes. By assuming that the internet is always pro-democratic, he says, Western policymakers are operating with a "voluntary intellectual handicap" that makes it harder rather than easier to promote democracy.

He starts with the events in Iran, which illustrate his argument in microcosm. An investigation by Al-Jazeera, an international news network based in Qatar, could confirm only 60 active Twitter accounts in Tehran. Iranian bloggers who took part in the protests have since poured cold water on the "Twitter revolution" theory. But the American government's endorsement of the theory, together with the State Department's request that Twitter delay some planned maintenance that would have taken the service offline for a few crucial hours at the height of the unrest, prompted the Iranian authorities to crack down on social networks of all kinds. Iranians entering the country were, for example, looked up on Facebook to see if they had links to any known dissidents, thus achieving the very opposite of what American policymakers wanted.

The root of the problem, Mr Morozov argues, is that Western policymakers see an all-too-neat parallel with the role that radio propaganda and photocopiers may have played in undermining the Soviet Union. A native of Belarus, Mr Morozov (who has occasionally written for *The Economist*) says this oversimplification of history has led to the erroneous conclusion that promoting internet access and "internet freedom" will have a similar effect on authoritarian regimes today.

In fact, authoritarian regimes can use the internet, as well as greater access to other kinds of media, such as television, to their advantage. Allowing East Germans to watch American soap operas on West German television, for example, seems to have acted as a form of pacification that actually reduced people's interest in politics. Surveys found that East Germans with access to Western television were less likely to express dissatisfaction with the regime. As one East German dissident lamented, "the whole people could leave the country and move to the West as a man at 8pm, via television."

Mr Morozov catalogues many similar examples of the internet being used with similarly pacifying consequences today, as authoritarian regimes make an implicit deal with their populations: help yourselves to pirated films, silly video clips and online pornography, but stay away from politics. "The internet", Mr Morozov argues, "has provided so many cheap and easily available entertainment fixes to those living under authoritarianism that it has become considerably harder to get people to care about politics at all."

Social networks offer a cheaper and easier way to identify dissidents than other, more traditional forms of surveillance. Despite talk of a "dictator's dilemma", censorship technology is sophisticated enough to block politically sensitive material without impeding economic activity, as China's example shows. The internet can be used to spread propaganda very effectively, which is why Hugo Chavez is on Twitter. The web can also be effective in supporting the government line, or at least casting doubt on critics' position (China has an army of pro-government bloggers). Indeed, under regimes where nobody believes the official media, pro-government propaganda spread via the internet is actually perceived by many to be more credible by comparison.

Authoritarian governments are assumed to be clueless about the internet, but they often understand its political uses far better than their Western counterparts do, Mr Morozov suggests. His profiles in "The Net Delusion" of the Russian government's young internet advisers are particularly illuminating. Previous technologies, including the telegraph, aircraft, radio and television, were also expected to bolster democracy, he observes, but they failed to live up to expectations. The proliferation of channels means that Americans watch less TV news than they did in the pre-cable era. And by endorsing Twitter, Facebook and Google as pro-democratic instruments, the American government has compromised their neutrality and encouraged authoritarian regimes to regard them as agents of its foreign policy.

So what does Mr Morozov propose instead of the current approach? He calls for "cyber-realism" to replace "cyber-utopianism", making it clear that he believes that technology can indeed be used to promote democracy, provided it is done in the right way. But he presents little in the way of specific prescriptions, other than to stress the importance of considering the social and political context in which technology is deployed, rather than focusing on the characteristics of the technology itself, as internet gurus tend to. Every authoritarian regime is different, he argues, so it is implausible that the same approach will work in each case; detailed local knowledge is vital. Yet having done such a good job of knocking down his opponents' arguments, it is a pity he does not have more concrete proposals to offer in their place.

With chapter titles and headings such as "Why the KGB wants you to join Facebook" and "Why Kierkegaard Hates Slacktivism" it is clear that Mr Morozov is enjoying himself (indeed, there may be a few more bad jokes than is strictly necessary). But the resulting book is not just unfailingly readable: it is also a provocative, enlightening and welcome riposte to the cyber-utopian worldview.

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The war on terror

History of an unfinished fight

Jan 6th 2011 | from PRINT EDITION

An early analysis of the war prepares the ground for deeper ones

The Longest War: The Enduring Conflict Between America and al-Qaeda. By Peter Bergen. *Free Press; 496 pages; $28. To be published in Britain in February by Simon & Schuster as "The Longest War: America and al-Qaeda Since 9/11"; pound17.99.* Buy from Amazon.com, Amazon.co.uk

Trillion-dollar target

HISTORIANS may well wonder one day at the fuss America's rulers made over a few thousand Islamist fanatics. They will certainly look unkindly on some of the steps taken against them.

America has not suffered a major terrorist incident within its borders since the September 11th attacks almost a decade ago. But it has spent over a trillion dollars on two inglorious wars, in which thousands have perished. It has insulted some of its oldest allies, tortured its enemies and helped inspire a surge in Islamist militancy in many countries. America's armed forces, though still supreme, are weary and in need of reinvestment. Osama bin Laden is still at large and his former hosts, the Taliban, are running riot. The war on terror, as it was wrongly called, has been damaging to America and the world.

To read "The Longest War" by Peter Bergen, an American journalist and al-Qaeda watcher, is to be amazed afresh at how badly America has handled the affair. Largely ignorant of al-Qaeda, Islam and weak states, the Bush administration's response to September 11th was, he argues, conditioned more by its existing prejudices and strategic impulses than by any proper assessment of the terrorist threat. The invasion of Iraq, based on false intelligence and mendacious claims of a link between Saddam Hussein and al-Qaeda, was the most obvious example of this. The administration's enthusiasm for such interrogation techniques as simulated drowning, which yielded little or no crucial new intelligence, according to Mr

Bergen, was another. So, too, was the bungling of the invasion of Afghanistan. In 2002 America had 8,000 troops there and an aversion to nation-building; now it has 100,000 and faces the possibility of defeat.

So the war is not over. Yet weariness of it, a change of American leadership, the emergence of other pressing problems and a widespread suspicion that the terrorists' capability was exaggerated have made it less prominent. That makes Mr Bergen's readable and well-reported appraisal timely. His book also includes much fascinating new detail on several important episodes, including the battle of Tora Bora and Mr bin Laden's escape from it, America's "enhanced interrogation" programme and the deliberations leading to the troop surges in Iraq in 2007 and in Afghanistan this year. But Mr Bergen does not provide an especially novel analysis of these events, some of which-especially of the Iraq war-have been covered more thoroughly elsewhere. And where American sources are thin on the ground, his account is less accomplished, particularly on Pakistan, which is arguably the most important battlefield.

A bigger criticism is that Mr Bergen does not offer the considered judgment on al-Qaeda that his endeavour cries out for. Despite all his stringent and justified criticism of America's prosecution of the war, he never spells out quite what the right response to September 11th should have been. Indeed, it is not altogether clear how big a threat he thinks al-Qaeda poses. He argues, convincingly, that American decision-makers frequently exaggerated its capability, and even that they revitalised al-Qaeda, in Iraq and elsewhere, through bad policy. He writes penetratingly about the spreading opposition to jihadist militancy among mainstream Muslims. Yet he dismisses the view of some Europeans that al-Qaeda is essentially a law and order problem-more or less arguing, with odd logic, that since it declared war on America, then America must be at war.

After a decade of conflict, it is surprising that al-Qaeda is not better understood. Perhaps future historians will consider several of the war's unintended outcomes, including a chastened America, a stronger Iran and the accelerating descent of Pakistan, to have been more significant than Mr bin Laden and his gang.

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Young Americans

Left out in the rain

Jan 6th 2011 | from PRINT EDITION

It's tougher than it appears for the millennial generation

Not Quite Adults: Why 20-Somethings Are Choosing a Slower Path to Adulthood, and Why It's Good for Everyone. By Richard Settersten and Barbara Ray. B*antam; 272 pages; $15.* Buy from Amazon.com

PLUGGED in, narcissistic and upbeat, America's twenty-somethings may be the most educated, diverse and digitally savvy generation in the country's history. They are also most likely to be living with their parents. Though they burst into the workforce with expectations of fun and fulfilment (leading employers to grouse about their sense of entitlement), they have been delivered a slap by the recession. About 37% of 18-to-29-year-olds are unemployed, nearly four times the national average. Most are simply struggling to keep their heads above water, according to the MacArthur Research Network.

The young in previous generations have also tended to drift, yet "opportunity structures today are less forgiving of trifling mistakes." That is one of the conclusions of "Not Quite Adults". Drawing on eight years of data and more than 500 interviews with young people between 18 and 34, Richard Settersten and Barbara Ray dismantle the common belief that this generation has been coddled into laziness. Rather, these young adults have come of age at a particularly merciless moment. Even before the recession, which will wreak lasting havoc on their earning power and trust in government, the market had ceased rewarding diligent, low-skilled labour with reasonable pay and benefits. Employment is now largely divided into well-paid, highly-skilled jobs and the poorly paid, less-secure jobs of the service sector. The middle has been hollowed out, on-the-job training is rare and good posts hard to come by.

A university degree has never been more essential for securing good employment. Graduates earn 54% more on average than those who never graduated, yet only a quarter of Americans between 25 and 34 have a bachelor's degree. Nearly half of the 3m people who enroll in university in America drop out within six years (among wealthy countries, only Italy has a worse rate). Part of the trouble, Mr Settersten and Ms Ray point out, is that in the absence of reliable public schools, parents must play a big role in the academic careers of their children. Good quality, low-cost options for higher education abound (despite the rising price of private tuition), yet the children of poorly educated adults are less likely to make the necessary investment in education. The debt that young people carry today is often not from college, the MacArthur research finds, but from the cost of not investing in college.

Mr Settersten, a sociology professor at Oregon State University, and Ms Ray, a writer attached to the MacArthur Research Network, use statistics and anecdotes to map out a growing divide between the haves and the have-nots-the generation's "swimmers" and "treaders". The former often have supportive parents, wider social networks, university degrees and a greater sense of civic engagement. Many "swimmers" even choose to move back home to help pay off student loans and save for the future.

Most twenty-somethings, however, are "treaders", who simply replicate the lessons of their poorer, less stable, non-voting and hands-off parents, but to worse effect. The authors argue that when young adults invest in themselves and their careers before taking on the baggage of marriage, children and a job to pay the bills, they are equipped to make better choices down the road, for themselves and as citizens. Having a child too early can be one of the costliest barriers to advancement, whereas postponing nuptials until careers are in place leads to lower divorce rates.

"Not Quite Adults" offers a valuable portrait of the diverging destinies of young people today. In a country that prizes self- reliance and private solutions for social problems, more young adults are doomed to sink. Regardless of where one assigns blame, when nearly two-thirds of the next generation is struggling to find "a secure foothold in the middle class", everyone ends up paying the price.

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The financial crisis

Piecing it together

Jan 6th 2011 | from PRINT EDITION

Arrogant, desperate and clueless

All The Devils Are Here: The Hidden History of the Financial Crisis. By Bethany McLean and Joe Nocera. *Portfolio; 380 pages; $32.95.Viking; pound14.99.* Buy from Amazon.com, Amazon.co.uk

THE latest book on the financial crisis has an odd title. You begin reading "All the Devils Are Here", a line from Shakespeare's "The Tempest", expecting to encounter satanic bankers and corrupt government cronies preying on a defenceless public. In fact the people who emerge are infinitely more interesting: arrogant, desperate, even clueless-but, with a few exceptions, not devils.

Take Angelo Mozilo. From the time he started Countrywide Financial in the late 1960s the Bronx-born outsider was convinced he could put millions of deserving families in homes, maintain impeccable underwriting standards-and get rich. That became impossible as the subprime mania grew. By 2006 Mr Mozilo had a "Dr Jekyll and Mr Hyde" quality, the authors note, giving warning that disaster loomed while at the same time insisting his company would still thrive. In fact, Countrywide had become a leading purveyor of toxic mortgage products that would take the company to the brink of bankruptcy.

Similar tensions prevailed across Wall Street. Inside Merrill Lynch and AIG, senior executives worried as far back as 2005 and 2006 about their firms' exposure to the mortgage market. The Cassandras in these companies were ignored, sidelined or fired, not because their bosses were corrupt, but because they didn't believe the warnings. Joe Cassano, the short-tempered head of AIG's infamous financial-products division, worried about credit losses but apparently not about the possibility of multiple, massive collateral calls, which proved the firm's undoing. Stan O'Neal, Merrill's head, had no idea that his firm had accumulated fatal levels of subprime exposure because he had pushed aside the people who might have warned him. Goldman Sachs was spared the fate of those companies largely because its managers listened to its naysayers.

Much of the history that Bethany McLean and Joe Nocera recount has already appeared in news accounts, books, government investigations and court proceedings. Still, they have synthesised an impressive amount of that material and supplemented it with their own reporting to produce a comprehensive and authoritative account. Lesser-known events and individuals take on new prominence, such as the 1986 tax law that made it possible to slice up mortgage-backed securities, and the important role played by Ameriquest and its politically deft founder, Roland Arnall, in leading the race to the bottom in subprime standards.

Inevitably, some important chapters of the crisis get short shrift. The collapse of Bear Stearns and Lehman Brothers get only a few pages each, which may not matter so much because they have been so thoroughly covered elsewhere. The macroeconomic forces behind the bubble, such as low interest rates at home and abroad, are all but ignored. Indeed, the

authors never wander beyond America's shores. Ms McLean and Mr Nocera, who write for *Vanity Fair* and the *New York Times*, have reporters' penchant for detail. The litany of names, numbers and financial jargon is at times exhausting, even with the help of an eight-page cast of characters and two-page glossary of acronyms. And there are too many pointless, anonymous quotes.

Ultimately, though, their journalistic approach is the central contribution of their book. Its balanced and complex portrayal of the roots of the crisis won't satisfy those who really do see devils at work; but it is closer to the truth.

America's revolution

The king's shilling

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A revolution that was also a civil war

Tories: Fighting for the King in America's First Civil War. By Thomas Allen. *Harper; 468 pages; $26.99.* Buy from Amazon.com

AMERICANS remember their revolution as an event both epochal and clean. Richard Nixon famously argued that it was not a revolution at all. Some historians, such as Charles and Mary Beard and Howard Zinn, stress its conservative character; others, like Gordon Wood, have insisted on its radicalism. The revolution Thomas Allen presents, in an original and copiously sourced history of the war's losers, the Loyalists, called Tories by their victorious opponents, is very different.

Mr Allen sees it as "a revolution that was also a civil war". Men fought to the death, he says, "American against American, kin against kin". At the decisive fight at King's Mountain, there was only one British subject. "Everyone else was an American, and those who chose to fight for King George III had chosen the wrong side."

History is written by the victors. Mr Allen points out that although Loyalists were a minority-in the end perhaps no more than one-fifth of the colonists-in many places they were a very substantial proportion of the population of the colonies. In the end, some 80,000 quit the new republic for Britain, the British colonies in the Caribbean and especially for Canada, where their influence has been lasting. One tragic group were the black freedmen, in danger of being re-enslaved on the orders of George Washington. (At least one of them had belonged to Thomas Jefferson.) They were eventually allowed to emigrate to Nova Scotia, but were so badly treated there that they moved on to West Africa, where they became Sierra Leone's elite, founding the capital, Freetown.

The Loyalists were of many kinds and conditions. There was a religious dimension. Presbyterians were apt to be Patriots, Anglicans often Tories. Many slaves, tempted by freedom, joined Loyalist units, such as Lord Dunmore's Ethiopian Regiment; so did many, though not all, of the Native American tribes on the frontier. Quakers and Catholics sided with the king, and so did many settlers of German and Dutch origin, as well as most Scots Highlanders, who had sworn an oath of loyalty to the Hanoverian crown in defeat and were not about to go back on it. Some tenant farmers fought alongside their Tory landlords, while others were Loyalists out of hostility to Patriot landlords. Some were tempted by promises of land, others by the fact that the king's armies paid in a gold-backed currency, not paper dollars.

Like other civil wars, the American revolution was marked by brutality on a sickening scale. Both sides shot and hanged prisoners without mercy, and on at least two occasions Patriots enforced the gruesome punishment of hanging, drawing and quartering. While the Native American braves recruited to fight for the crown by the Johnson and Butler chieftains of the Mohawk valley scalped, tortured and sometimes burned their prisoners alive, the Patriots tarred and feathered Loyalists, or forced them to ride on a sharpened rail, and many Loyalist houses were looted and burned. Patriotic legend remembers the violence of British officers, but rebel officers, including General Washington himself, could be ruthless when policy recommended it. The future father of his country once proposed shooting a few Tories to "strike terror into the others". In real life, civil wars are not Tea Parties.

New film: "Black Swan"

Inside moves

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Natalie Portman steps out

Unconfined wings

IN DARREN ARONOFSKY'S thriller, "Black Swan", which has opened in America and is launched around the world from later this month, Natalie Portman plays Nina, the kind of ballerina who is referred to in the dance world as a "bunhead" because she has sacrificed her life to the quest for perfection. Nina is poised to step into the dual role of Odette and Odile in "Swan Lake" at New York's Lincoln Centre. But Thomas (Vincent Cassel), the company's tyrannical director, tells her that perfection isn't enough. She may be flawless as Odette, but she lacks the passion to play Odette's evil twin, Odile. To get in touch with her dark side, Nina will have to live a little.

Unfortunately, she and her devoted, overbearing mother Erica (Barbara Hershey), a former dancer, share a claustrophobic apartment where Thomas's modest tips about overcoming 30 years of sexual repression prove impractical. Her alternate in the leading role, a sexy interloper named Lily (Mila Kunis), even comes home with her after an ecstasy-fuelled night on the town, but the consummation Nina experiences turns scary when Lily looks up in mid-tryst with Nina's face and informs her the next day that she went home alone in a taxi. This is no isolated incident; Nina is going mad.

"Black Swan" evokes memories of Michael Powell's "The Red Shoes", but it soon veers into the territory of his "Peeping Tom", about a cameraman who murders his models while filming them. Does Nina murder Lily before triumphing onstage as a very scary black swan? The film, which weds gritty realism with the dreamworld of the ballet, is an unreliable witness. It takes place entirely inside Nina's mind, which is increasingly unable to distinguish between the two. What is incontestably real is Ms Portman's triumph in rising to the demands of the role, and the weird beauty of the film Mr Aronofsky has created to display her Oscar-calibre performance.

Carlos Andrés Pérez

Carlos Andres Perez, president of Venezuela in both boom and bust, died on December 25th, aged 88

EVER since 1922, when the first gusher at Maracaibo roared up with the noise of "a thousand freight trains", the history and destiny of Venezuela has been tied fast to oil. "Black gold" has brought highways, schools, shipyards, hydroelectric plants and the skyscrapers of Caracas. It has also brought economic collapse, political repression and thoroughgoing corruption. Not for nothing is it also known in Venezuela as the excrement of the devil.

Carlos Andres Perez, born the very year the gusher erupted, knew all about both sides of oil. He led Venezuela through both the boom years of 1974-79, when prices had quadrupled after the Arab oil embargo, and, in a second term, through the bust of 1989-93, when they had dived so steeply that Venezuela ended up borrowing $4.5 billion from the IMF. In the late 1970s his long-time mistress, Cecilia Matos, would appear in a necklace from which hung a small, gold, oil derrick. The necklace fell out of favour, though she did not; wife and mistress still battled over Mr Perez as he lay in his coffin, elegant as ever in suit and white silk tie.

Flash, energetic, full of sound political instincts but economically challenged, Mr Perez rode the oil boom like an old-fashioned populist *caudillo*. His proudest stroke was to nationalise the oil industry in 1976, buying up the foreign companies for $1 billion and signing the papers with a showy gold pen. Huge public works were started, at a cost of $53 billion: housing projects, industrial parks, a subway in Caracas and *El Sistema*, a music-teaching programme for the poor. *Venezuela Saudita* (Saudi Venezuela) seemed to be doing so well that in 1989, even with oil prices dipping, Mr Perez invited 27 heads of state and 800 foreign dignitaries to dine on lobster and bubbly at his second inauguration.

Some policies were sensible. The newly nationalised oil industry kept the structure of the old, and production was limited to try to moderate the flood of money into a country ill-equipped to handle it. An investment fund was set up, too. But Mr Perez never thought to pay off Venezuela's external debt, which rose from $0.7 billion in 1974 to $6.1 billion in 1978, or to stem the flight of $35 billion in capital out of the country. A man of ambitions as big as his sideburns, Mr Perez seemed to think the oil price would never go down.

By 1989, the year he went begging to the IMF, this fervent socialist-a man whose first instincts in government in 1974 had been to freeze the price of *arepas* (Venezuelan tortillas) and to insist on an operator in every lift in Caracas-had become a reluctant Thatcherite. He raised interest rates, removed customs dues and liberated petrol prices, which promptly doubled. The result was rioting in and around Caracas in which some 400 people died, mostly shot by the national guard.

Mr Perez's moral authority never recovered. He made a poor salesman for his austerity programme; though it did Venezuela good in the end, the gap between rich and poor yawned as wide as ever, and many also assumed that the president was stealing. In 1993 Congress impeached him for diverting $17m of public money to a secret fund; he said it had gone to help Violeta Chamorro win the presidency of Nicaragua, but the Supreme Court nonetheless removed him from office and put him under house arrest.

From coffee to petroleum

He was noisy even then. Politics was always his life and soul. It represented his ticket out of Rubio, in the Andes, to a life of glamour, fame and ever-attentive women. But Rubio, a coffee town, also shaped his deepest political instincts. His father owned a small *finca* there and, when the world coffee price collapsed in the 1930s, he died of stress and despair. Young Carlos realised then the reality of Venezuelan life: because his country was underdeveloped, it could neither control the price of its resources nor run its own affairs.

A half-hearted try at lawyering therefore didn't work; he was too busy reading leftish books. As a teenager he joined the National Democratic Party, then the socialist Accion Democratica, then in 1945 became private secretary to Romulo Betancourt, AD's founder, which got him into national politics in risky opposition to a series of military rulers. For ten years he was exiled, but came back strongly, and campaigned village-to-village for the presidency like an American congressman.

Once ensconced in the Miraflores palace, he determined to make his country speak for the commodity-rich but less developed world. As a member of OPEC (as he declared in an open letter to America's president, in 1974 in the *New York Times*), Venezuela intended to counteract the "economic oppression" of the industrialised countries, and the "outrageously low" prices they paid. He saw himself as a voice for the South against the North, as a pillar of the Non-Aligned Movement and a supporter of any country, such as Cuba, that got up the nose of the first world.

In that sense he paved the way for Hugo Chavez, the current president, who had tried to remove him in a coup in 1992, and whom he hoped would "die like a dog" before too long. Like Mr Chavez, he believed that oil gave Venezuela a passport to greatness and a mandate to annoy. He did not believe it allowed him to play quite so fast and loose with democracy.